SMITH LEONARD
Accountants & Consultants

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Furniture Insights®

Monthly Results

New Orders

According to our recent survey of furniture manufacturers and distributors, new orders increased 1 percent over December 2014 orders. December 2014 orders were 15 percent higher than December 2013 orders so the 1 percent increase this year over December last year was still a pretty decent month. One-half of our participants reported increases this month down slightly from last month.

The year ended up with a 4 percent increase over 2014 when orders were up 7 percent higher than 2013, so overall the 2015 year was a decent year. But we did notice a bit of a slowdown as the year progressed. Several of the folks we talk with seemed to feel that business softened in the fourth quarter, though that was not true for everyone. Some 53 percent of our participants finished the year with increased orders. This was down from 74 percent reporting increases last year.

Shipments and Backlogs

Shipments increased 5 percent in December 2015 compared to December 2014. Last December, shipments were up 6 percent over December 2013, so again comparing to some pretty good numbers. Only 47 percent of the participants reported increase shipments for the month.

Year-to-date, shipments were up 6 percent over 2014. 2014 shipments were also up 6 percent over 2013. Shipments were up for some 61 percent of the participants, down slightly from last month.

Backlogs fell 4 percent from November as shipments outpaced orders. Backlogs were also down 4 percent from last December, but December 2014 backlogs were 17 percent higher than December 2013 backlogs.

Furniture Insights®
A Monthly Newsletter

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Receivables and Inventories

Receivable levels were up 3 percent over December 2014 levels very much in line with the 5 percent increase in shipments for the month and the 6 percent increase for the year.

Inventory levels were up 1 percent over November but remained 7 percent higher than December 2014 levels. It appears that inventory levels were built early in the year when business seemed a bit better, but they have not shrunk back down as orders slowed. They do seem in decent shape considering overall conditions.

Factory and Warehouse Employees and Payrolls

The number of factory and warehouse employees was up 1 percent over November and 2 percent higher than December 2014. The 2 percent increase was the same as reported last month.

Factory and warehouse payrolls were 7 percent higher than December 2014 and were 7 percent higher year-to-date. The December results were consistent with the last several months. These levels do not seem too much out of line with the other key indicators.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®*, which had increased moderately in January, declined in February. The Index now stands at 92.2 (1985 = 100), down from 97.8 in January. The Present Situation Index declined from 116.6 to 112.1, while the Expectations Index decreased from 85.3 to 78.9 in February.

"Consumer confidence decreased in February, after posting a modest gain in January," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' assessment of current conditions weakened, primarily due to a less favorable assessment of business conditions. Consumers' short-term outlook grew more pessimistic, with consumers expressing greater apprehension about business conditions, their personal financial situation, and to a lesser degree, labor market prospects. Continued turmoil in the financial markets may be rattling consumers, but their assessment of current conditions suggests the economy will continue to expand at a moderate pace in the near-term."

Consumers' assessment of present-day conditions declined in February. The percentage saying business conditions were "good" decreased from 27.7 percent to 26.0 percent. Those saying business conditions are "bad" increased from 18.8 percent to 19.8 percent. Consumers' appraisal of the labor market was also less positive. Those claiming jobs are "plentiful" decreased from 23.0 percent to 22.1 percent, while those claiming jobs are "hard to get" rose to 24.2 percent from 23.6 percent.

Consumers were more pessimistic about the short-term outlook than in January. The percentage of consumers expecting business conditions to improve over the next six months declined from 15.9 percent to 14.6 percent, while those expecting business conditions to worsen increased from 10.7 percent to 12.0 percent. Consumers' outlook for the labor market was less optimistic. Those anticipating more jobs in the months ahead decreased from 13.4 percent to 12.2 percent, while those anticipating fewer jobs increased slightly from 17.0 percent to 17.2 percent. The proportion of consumers expecting their incomes to increase declined from 18.6 percent to 17.2

percent, while the proportion expecting a reduction in income increased from 10.7 percent to 12.5 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 1.0 percent in the fourth quarter of 2015, according the Bureau of Economic Analysis. In the third quarter, real GDP increased 2.0 percent.

The GDP estimate released is based on more complete source data than were available for the "advance" estimate issued last month. In the advance estimate, the increase in real GDP was 0.7 percent. With this second estimate for the fourth quarter, the general picture of economic growth remains the same; private inventory investment decreased less than previously estimated.

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 exports, nonresidential fixed investment, state and local government spending, and private inventory investment. Imports, which are a subtraction in the calculation of GDP, decreased.

The deceleration in real GDP in the fourth quarter primarily reflected a deceleration in PCE and downturns in nonresidential fixed investment, in state and local government spending, and 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.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. declined 0.2 percent in January to 123.2 (2010 = 100), following a 0.3 percent decrease in December and a 0.5 percent increase in November.

"The U.S. LEI fell slightly in January, driven primarily by large declines in stock prices and further weakness in initial claims for unemployment insurance," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "Despite back-to-back monthly declines, the index doesn't signal a significant increase in the risk of recession, and its six-month growth rate remains consistent with a modest economic expansion through early 2016."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.3 percent in January to 113.2 (2010 = 100), following a 0.1 percent increase in December, and no change in November.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.1 percent in January to 120.0 (2010 = 100), following a 0.2 percent increase in December, and a 0.4 percent increase in November.

Housing

Existing-Home Sales

Existing-home sales crept forward in January to the highest annual rate in six months, and subpar supply levels propelled price growth to the fastest increase since last April, according to the National Association of Realtors® (NAR). The West was the only region to see a decline in sales in January.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, inched 0.4 percent to a seasonally adjusted annual rate of 5.47 million in January from a downwardly revised 5.45 million in December. Sales were 11.0 percent higher than a year ago – the largest year-over-year gain since July 2013 (16.3 percent).

Single-family home sales increased 1.0 percent to a seasonally adjusted annual rate of 4.86 million in January from 4.81 million in December, and were 11.2 percent higher than the 4.37 million pace a year ago. The median existing single-family home price was $215,000 in January, up 8.3 percent from January 2015.

Existing condominium and co-op sales fell 4.7 percent to a seasonally adjusted annual rate of 610,000 units in January from 640,000 in December, but were still 8.9 percent above January 2015 (560,000 units). The median existing condo price was $203,900 in January, which was 7.4 percent above a year ago.

Lawrence Yun, NAR chief economist, said "existing sales kicked off 2016 on solid footing, rising slightly to the strongest pace since July 2015 (5.48 million). The housing market has shown promising resilience in recent months, but home prices are still rising too fast because of ongoing supply constraints," he said. "Despite the global economic slowdown, the housing sector continues to recover and will likely help the U.S. economy avoid a recession."

The median existing-home price for all housing types in January was $213,800, up 8.2 percent from January 2015 ($197,600). Last month's price increase was the largest since April 2015 (8.5 percent) and marks the 47th consecutive month of year-over-year gains.

Total housing inventory at the end of January increased 3.4 percent to 1.82 million existing homes available for sale, but is still 2.2 percent lower than a year ago (1.86 million). Unsold inventory is at a 4.0-month supply at the current sales pace, up slightly from 3.9 months in December 2015.

"The spring buying season is right around the corner and current supply levels aren't even close to what's needed to accommodate the subsequent growth in housing demand," says Yun. "Home prices ascending near or above double-digit appreciation aren't healthy – especially considering the fact that household income and wages are barely rising."

The share of first-time buyers remained at 32 percent in January for the second consecutive month and is up from 28 percent a year ago. First-time buyers in all of 2015 represented an average of 30 percent, up from 29 percent in both 2014 and 2013.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage stayed below 4 percent for the sixth consecutive month and declined in January to 3.87 (lowest since October 2015 at 3.80 percent) from 3.96 percent in December. The average commitment rate for all of 2015 was 3.85 percent.

Regional

January existing-home sales in the Northeast increased 2.7 percent to an annual rate of 760,000, and were 20.6 percent above a year ago. The median price in the Northeast was $247,500, which was 0.9 percent above January 2015.

In the Midwest, existing-home sales rose 4.0 percent to an annual rate of 1.30 million in January, and were 18.2 percent above January 2015. The median price in the Midwest was $164,300, up 8.7 percent from a year ago.

Existing-home sales in the South were at an annual rate of 2.24 million in January (unchanged from December) and was 5.7 percent above January 2015. The median price in the South was $184,800, up 8.5 percent from a year ago.

Existing-home sales in the West decreased 4.1 percent to an annual rate of 1.17 million in January, but were 8.3 percent higher than a year ago. The median price in the West was $309,400, which was 7.4 percent above January 2015.

New Residential Sales

Sales of new single-family houses in January 2016 were at a seasonally adjusted annual rate of 494,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 9.2 percent below the revised December rate of 544,000 and was 5.2 percent below the January 2015 estimate of 521,000.

The median sales price of new houses sold in January 2016 was $278,800; the average sales price was $365,700. The seasonally adjusted estimate of new houses for sale at the end of January was 238,000. This represents a supply of 5.8 months at the current sales rate.

Comparing January 2016 to January 2015, sales were down 1.3 percent in the Midwest; 2 percent in the South and 24.1 in the West, while up 100 percent in the Northeast due to low volume comparisons.

Housing Starts

According to the U.S. Census Bureau and the Department of Housing and Urban Development, privately-owned housing starts in January were at a seasonally adjusted annual rate of 1,099,000. This was 3.8 percent below the revised December estimate of 1,143,000, but was 1.8 percent above the January 2015 rate of 1,080,000.

Single-family housing starts in January were at a rate of 731,000; this was 3.9 percent below the revised December figure of 761,000. Single-family starts comparing January 2016 to January 2015 were down 1.8 percent in the Northeast; 2.9 percent in the Midwest and 7.3 percent in the West, with starts up 10.7 percent in the South.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for January, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $449.9 billion, an increase of 0.2 percent from the previous month, and 3.4 percent above January 2015. Total sales for the November 2015 through January 2016 period were up 2.5 percent from the same period a year ago.

Retail trade sales were up 0.3 percent from December 2015, and up 3.1 percent from last year. Sporting goods, hobby, book and music stores were up 9.1 percent from January 2015 and nonstore retailers were up 8.7 percent from last year.

On an adjusted basis, sales at furniture and home furnishings stores were up 4.0 percent from January 2015 and up 1.6 percent not adjusted.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in January 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 1.4 percent before seasonal adjustment.

An increase in the index for all items less food and energy offset a decline in the energy index to lead to the seasonally adjusted all items index being unchanged. The energy index fell 2.8 percent as all of its major component indexes declined. The index for all items less food and energy rose 0.3 percent in January. The increase was broad-based, with most of the major components rising, but increases in the indexes for shelter and medical care were the largest contributors.

The food index was unchanged in January. The index for food away from home increased, but the food at home index declined for the third consecutive month, as five of the six major grocery store food group indexes decreased.

The all items index rose 1.4 percent over the last 12 months, compared to the 0.7-percent 12-month increase for the period ending December. The energy index fell 6.5 percent over the past year; this was its smallest 12-month decrease since November 2014. The food index rose 0.8 percent over the last 12 months, with the food at home index declining 0.5 percent. The index for all items less food and energy increased 2.2 percent over the last 12 months, a figure that has been gradually rising over the last several months.

Employment

Total nonfarm payroll employment rose by 151,000 in January, and the unemployment rate was little changed at 4.9 percent, according to the report from the U.S. Bureau of Labor Statistics. Job gains occurred in several industries, led by retail trade, food services and drinking places, health care, and manufacturing. Employment declined in private educational services, transportation and warehousing, and mining.

Both the number of unemployed persons, at 7.8 million, and the unemployment rate, at 4.9 percent, changed little in January. Over the past 12 months, the number of unemployed persons and the unemployment rate were down by 1.1 million and 0.8 percentage point, respectively.

Durable Goods Orders and Factory Shipments

According to the U.S. Census Bureau, new orders for manufactured durable goods in January increased $11.1 billion or 4.9 percent to $237.5 billion. This increase, up following two consecutive monthly decreases, followed a 4.6 percent December decrease. Excluding transportation, new orders increased 1.8 percent. Excluding defense, new orders increased 4.5 percent.

Transportation equipment, also up following two consecutive monthly decreases, led the increase at 11.5 percent to $79.7 billion.

Shipments of manufactured durable goods in January, up two of the last three months, increased $4.6 billion, or 1.9 percent, to $241.9 billion. This followed a 1.6 percent December decrease.

Transportation equipment, also up two of the last three months, led the increase, 5.7 percent to $80.0 billion.

According to the final report, shipments of furniture and related products were up 2.2 percent over December 2014 and up 6.3 percent for the year. New orders were down 0.6 percent in December but up 5.2 percent for the year.

Executive Summary

According to our latest survey of residential furniture manufacturers and distributors, new orders in December 2015 were 1 percent higher than new orders received in December 2014. While on the surface, that didn't seem too good, but when you realize that new orders in December 2014 were 15 percent higher than December 2013 orders, the 1 percent doesn't seem that bad. One half of the participants reported increased orders for the month.

For the year, new orders were 4 percent higher than 2014 when they were 7 percent higher than 2013 so again a pretty decent year. Some 53 percent of the participants reported increased orders for the year.

The last part of the year seemed a bit slower for many after starting the year pretty strong. Overall 2015 turned out to be a pretty good year as a whole.

Shipments remained solid with a 5 percent increase over December 2014 and up 6 percent for the year after a 6 percent increase reported last year. Shipments were up for some 61 percent of the participants. Shipments in 2014 were up over 2013 for some 74 percent of the participants.

Backlogs fell 4 percent as shipments exceeded new orders in December. Backlogs were also 4 percent lower than December 2014 but December 2014 backlogs were 17 percent higher than December 2013.

Receivable levels remained in good shape showing just a 3 percent increase over December 2014 comparing favorably with the 5 percent increase in shipments for the month. Inventories remained a bit high with a 7 percent increase over last December but this increase really doesn't seem too far out of line.

Factory and warehouse payrolls and the number of employees also seemed pretty much in line as payrolls were up 7 percent for the year. The number of employees was up 2 percent over December 2014, very much in line.

National

On the national front, consumer confidence, after increasing moderately in January, declined in February. Both the Expectations Index and the Present Situation Index declined. Many of the individual components declined. The second estimate for GDP in the fourth quarter was revised upward to 1.0 percent growth from previous estimate of 0.7 percent.

Housing was a mixed bag with existing home sales increasing in all regions except the West. All regions continue to show significant increases over a year ago. One concern is that prices may be rising too fast considering lower levels of inventory. New house sales fell in all regions except the Northeast and South and all regions were below last year except the Northeast. Housing starts fell for the month of January but were slightly ahead of last year.

Retail sales showed a slight increase in January over December on an adjusted basis and were 3.4 percent higher than January 2015. On an adjusted basis, sales at furniture and home furnishings stores were up 4 percent over January 2015.

The Consumer Price Index was unchanged in January, with the all items index increasing 1.4 percent over the last 12 months.

The employment picture was not quite as strong as in previous months with nonfarm employment increasing by 151,000 in January and the unemployment rate at 4.9 percent.

Summary

The growth in the industry seemed to slow a bit in the latter part of 2015, but we were comparing to pretty strong results in the latter part of 2014. The overall results seem a bit misleading as we talk with some who really seemed to feel a slowdown, yet others have continued to grow rather healthily. And this seems prevalent in both upholstery and case goods.

It seems we can always blame weather but we also got lucky this year with the Presidential races. If we listen to most of them, we are living in a terrible place with everything wrong. We admit, depending on which side you are on, we do have some problems. But fixing those problems is probably easier said than done.

The GDP growth did slow a bit in the fourth quarter so overall the economy has slowed somewhat to a level that many feel is not a good growth rate. Yet, we do not seem to have a lot of fears of a recession – just slower growth. (The Leading Economic Indicators report also noted that there was not a concern over recession at this point.)

The stock market volatility has also been a concern, but retail sales continue to grow. If my experience at a regional mall with three granddaughters this weekend is any indication, people are still out there buying. And traffic in the roads seemed to indicate lots more trying to get to stores.

This year is probably a good year not to expect too much growth but instead to really look after your customers and protect your markets. As we have always said, you don't have to have all the business in the world. You just have to have your share.

Estimated Business Activity (Millions of Dollars)						
	2015			2014		
	December	November	12 Months	December	November	12 Months
New Orders	2,061	2,126	25,623	2,033	2,037	24,718
Shipments	2,188	2,120	25,974	2,094	2,028	24,440
Backlog (R)	2,075	2,162		2,150	2,211	

Key Monthly Indicators			
	December 2015 From November 2015 Percent Change	December 2015 From December 2014 Percent Change	12 Months 2015 Versus 12 Months 2014 Percent Change
New Orders	-3	+1	+4
Shipments	-1	+5	+6
Backlog	-4	-4	
Payrolls	+4	+7	+7
Employees	+1	+2	
Receivables	-1	+3	
Inventories	+1	+7	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2014				
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
October	+1	+7	–	+3
November	+4	+5	–	+2
December	+1	+5	-4	+2