SMITH LEONARD
Accountants & Consultants

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Furniture Insights®

Monthly Results

New Orders

New orders in November 2015 were 4 percent higher than new orders in November 2014, according to our latest survey of residential furniture manufacturers and distributors. The 4 percent increase followed a 1 percent increase in October and a flat September. New orders for the month were up for some 52 percent of the participants.

Year-to-date, new orders were up 4 percent over the same period a year ago, the same as reported last month. New orders year-to-date were up for some 53 percent of the participants. Last year at this time, November 2014 orders were 6 percent higher than November 2013 orders.

Shipments and Backlogs

Shipments in November 2015 were up 5 percent over November 2014 levels. Shipments were up for approximately 55 percent of the participants. Year-to-date, shipments were up 6 percent over the same period a year ago, down from 7 percent reported last month. In 2014, year-to-date shipments through November were up 6 percent over 2013 year-to-date. Shipments were up year-to-date for some 64 percent of the participants, down slightly from 70 percent reported last month.

Backlogs were flat from October as the dollar amount of orders was just slightly ahead of shipments.

Receivables and Inventories

In spite of the 5 percent increase in shipments, receivable levels were actually down 1 percent from November 2014. Receivables were up 1 percent from October in spite of a 3 percent decline in shipments from October. It appears that there may be a timing issue here so we will see what the December results show next month.

Furniture Insights®
A Monthly Newsletter

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Inventories were even with October 2015 and remained 7 percent ahead of November 2014 levels. With business apparently slowing a bit, inventory levels will need to be watched.

Factory and Warehouse Employees and Payrolls

The number of factory and warehouse employees were even with October and 2 percent higher than November 2014. This was down from a 3 percent increase reported last month.

Factory and warehouse payrolls fell 5 percent from October (partially due to the Thanksgiving holidays) but were 6 percent higher than November 2014. Year-to-date, factory and warehouse payrolls remained 7 percent higher than the same period in 2014.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®*, which had increased in December, improved moderately in January. The Index now stands at 98.1 (1985 = 100), up from 96.3 in December. The Present Situation Index was unchanged at 116.4, while the Expectations Index increased from 83.0 to 85.9 in January.

"Consumer confidence improved slightly in January, following an increase in December," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' assessment of current conditions held steady, while their expectations for the next six months improved moderately. For now, consumers do not foresee the volatility in financial markets as having a negative impact on the economy."

Consumers' appraisal of current conditions was relatively flat in January. The percentage saying business conditions are "good" was virtually unchanged at 27.2 percent, while those saying business conditions are "bad" declined slightly from 18.9 percent to 18.5 percent. Consumers' assessment of the labor market was modestly more positive. The proportion claiming jobs are "plentiful" decreased from 24.2 percent to 22.8 percent, while those claiming jobs are "hard to get" declined to 23.4 percent from 24.5 percent.

Consumers' optimism about the short-term outlook improved somewhat in January. The percentage of consumers expecting business conditions to improve over the next six months rose from 14.5 percent to 16.2 percent, while those expecting business conditions to worsen edged down from 10.8 percent to 10.3 percent.

Consumers' outlook for the labor market was also slightly more optimistic. Those anticipating more jobs in the months ahead increased slightly to 12.4 percent to 13.2 percent, while those anticipating fewer jobs decreased slightly from 16.8 percent to 16.5 percent. The proportion of consumers expecting their incomes to increase improved from 16.3 percent to 18.1 percent. However, the proportion expecting a reduction in income increased from 9.5 percent to 10.8 percent.

Gross Domestic Product (GDP)

Retail trade; health care and social assistance; and agriculture, forestry, fishing, and hunting were the leading contributors to the increase in U.S. economic growth in the third quarter of 2015, according to statistics on the breakout of gross domestic product (GDP) by industry released by the Bureau of Economic Analysis (BEA). Overall, 15 of 22 industry groups contributed to the 2.0 percent increase in real GDP in the third quarter.

For the retail trade industry group, real value added—a measure of an industry's contribution to GDP—increased 7.1 percent in the third quarter, after increasing 3.7 percent in the second quarter. The third quarter growth primarily reflected an increase in general merchandise stores.

Health care and social assistance increased 5.5 percent, after increasing 2.1 percent. The increase reflected growth in both ambulatory health care services and hospitals.

Agriculture, forestry, fishing, and hunting increased 37.5 percent, after decreasing 3.9 percent. This was the largest increase since the first quarter of 2013 and was primarily attributed to the farm industry.

Real GDP growth slowed to 2.0 percent in the third quarter, from 3.9 percent in the second quarter. Finance and insurance was the leading contributor to the deceleration in real GDP in the third quarter. Real value added for the industry group decreased 1.3 percent, after increasing 12.4 percent in the second quarter.

Wholesale trade decreased 5.8 percent, after increasing 8.4 percent. This was the largest decrease since the second quarter of 2009 and was the second leading contributor to the slowdown.

Information increased 0.4 percent, after increasing 9.3 percent, primarily reflecting an increase in information and data processing services.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. declined 0.2 percent in December to 123.7 (2010 = 100), following a 0.5 percent increase in both November and October.

"The U.S. LEI fell slightly in December, led by a drop in housing permits and weak new orders in manufacturing," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "However, the index continues to suggest moderate growth in the near-term despite the economy losing some momentum at the end of 2015. While the LEI's growth rate has been on the decline, it's too early to interpret this as a substantial rise in the risk of recession."

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

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.2 percent in December to 119.9 (2010 = 100), following a 0.3 percent increase in November, and a 0.2 percent increase in October.

Housing

Existing-Home Sales

Existing-home sales snapped back solidly in December as more buyers reached the market before the end of the year, and the delayed closings resulting from the rollout of the Know Before You Owe initiative pushed a portion of November's would-be transactions into last month's figure, according to the National Association of Realtors® (NAR). Led by the South and

West, all four major regions saw large increases in December.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, ascended 14.7 percent to a seasonally adjusted annual rate of 5.46 million in December 4.76 million in November. After last month's turnaround (the largest monthly increase ever recorded), sales were 7.7 percent above a year ago.

Single-family home sales jumped 16.1 percent to a seasonally adjusted annual rate of 4.82 million in December from 4.15 million in November, and were 7.1 percent higher than the 4.50 million pace a year ago. The median existing single-family home price was $226,000 in December, up 8.0 percent from December 2014.

Existing condominium and co-op sales increased 4.9 percent to a seasonally adjusted annual rate of 640,000 units in December from 610,000 in November, and were 12.3 percent above December 2014 (570,000 units). The median existing condo price was $209,900 in December, which was 4.9 percent above a year ago.

Lawrence Yun, NAR chief economist, says December's robust bounce back caps off the best year of existing sales (5.26 million) since 2006 (6.48 million). "While the carryover of November's delayed transactions into December contributed greatly to the sharp increase, the overall pace taken together indicates sales these last two months maintained the healthy level of activity seen in most of 2015," he said. "Additionally, the prospect of higher mortgage rates in coming months and warm November and December weather allowed more homes to close before the end of the year."

The median existing-home price for all housing types in December was $224,100, up 7.6 percent from December 2014 ($208,200). Last month's price increase marks the 46th consecutive month of year-over-year gains.

Total housing inventory at the end of December dropped 12.3 percent to 1.79 million existing homes available for sale, and is now 3.8 percent lower than a year ago (1.86 million). Unsold inventory is at a 3.9-month supply at the current sales pace, down from 5.1 months in November and the lowest since January 2005 (3.6 months).

"Although some growth is expected, the housing market will struggle in 2016 to replicate last year's 7 percent increase in sales," adds Yun. "In addition to insufficient supply levels, the overall pace of sales this year will be constricted by tepid economic expansion, rising mortgage rates and decreasing demand for buying in oil-producing metro areas."

The percent share of first-time buyers was at 32 percent in December (matching the highest share since August), up from 30 percent in November and 29 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. A separate NAR survey released in late 2015 revealed that the annual share of first-time buyers was at its lowest level in nearly three decades.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage stayed below 4 percent for the fifth consecutive month but increased in December to 3.96 from 3.94 percent in November. The average commitment rate for all of 2015 was 3.85 percent.

Properties typically stayed on the market for 58 days in December, an increase from 54 days in November but below the 66 days in December 2014.

Regional

December existing-home sales in the Northeast increased 8.7 percent to an annual rate of 750,000, and were 11.9 percent above a year ago. The median price in the Northeast was $255,700, which was 5.3 percent above December 2014.

In the Midwest, existing-home sales jumped 10.9 percent to an annual rate of 1.22 million in December, and were 9.9 percent above December 2014. The median price in the Midwest was $171,000, up 7.5 percent from a year ago.

Existing-home sales in the South leaped 14.6 percent to an annual rate of 2.27 million in December, and were 4.6 percent below December 2014. The median price in the South was $196,100, up 6.8 percent from a year ago.

Existing-home sales in the West increased 23.2 percent to an annual rate of 1.22 million in December, and were 8.9 percent higher than a year ago. The median price in the West was $321,100, which was 8.2 percent above December 2014.

New Residential Sales

Sales of new single-family houses in December 2015 were at a seasonally adjusted annual rate of 544,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 10.8 percent above the revised November rate of 491,000 and was 9.9 percent above the December 2014 estimate of 495,000.

The median sales price of new houses sold in December 2015 was $288,900; the average sales price was $346,400. The seasonally adjusted estimate of new houses for sale at the end of December was 237,000. This represents a supply of 5.2 months at the current sales rate.

For the December 2015 to December 2014 comparison, sales were up 38.9 percent in the Midwest and 21.9 percent in the West, while sales were flat in the South and down 6.5 percent in the Northeast.

Housing Starts

According to the U.S. Census Bureau and the Department of Housing and Urban Development, privately-owned housing starts in December were at a seasonally adjusted annual rate of 1,149,000. This was 2.5 percent below the revised November estimate of 1,179,000, but was 6.4 percent above the December 2014 rate of 1,080,000.

Single-family housing starts in December were at a rate of 768,000; this was 3.3 percent below the revised November figure of 794,000. The December rate for units in buildings with five units or more was 365,000.

Comparing December 2015 to December 2014, starts were up 25.0 percent in the Northeast, 10.0 percent in the South and up 10.4 percent in the West, but were down 18.9 percent in the Midwest.

An estimated 1,111,200 housing units were started in 2015. This was 10.8 percent above the 2014 figure of 1,003,300.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for December, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $448.1 billion, a decrease of 0.1 percent from the previous month, and 2.2 percent above December 2014. Total sales for the 12 months of 2015 were up 2.1

percent from 2014. Total sales for the October 2015 through December 2015 period were up 1.8 percent from the same period a year ago.

Retail trade sales were down 0.2 percent from November 2015, but up 1.6 percent from last year. Sporting goods, hobby, book and music stores were up 7.6 percent from December 2014 and nonstore retailers were up 7.1 percent from last year.

For December, on an adjusted basis, sales at furniture and home furnishings stores were up 6.0 percent compared to December 2014 and finished the year up 5.8 percent year-to-date. Of the 13 categories in the survey, the furniture and home furnishings category ranked 5th, behind food services and drinking places, motor vehicle and parts dealers, nonstore retailers and sporting goods, hobby and book and music stores.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.1 percent in December 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 0.7 percent before seasonal adjustment.

The indexes for energy and food declined in second month in a row, leading to the decline in the seasonally adjusted all items index. The energy index fell 2.4 percent as all major component energy indexes declined. The food index fell 0.2 percent as the index for food at home decreased 0.5 percent, led by a sharp decline in the index for meats, poultry, fish, and eggs.

The index for all items less food and energy rose 0.1 percent in December, its smallest increase since August. The index for shelter continued to rise, and the indexes for medical care, household furnishings and operations, motor vehicle insurance, education, used cars and trucks, and tobacco also increased in December. However, a number of indexes declined, including those for apparel, airline fares, personal care, new vehicles, and communication.

The all items index rose 0.7 percent over the last 12 months, compared to the 0.5 percent 12 month increase for the period ending November. The food index rose 0.8 percent over the last 12 months, though the index for food at home declined. The energy index fell 12.6 percent, with all its major components decreasing. The index for all items less food and energy increased 2.1 percent over the last 12 months.

Employment

Total nonfarm payroll employment rose by 292,000 in December, and the unemployment rate was unchanged at 5.0 percent, according to the report from the U.S. Bureau of Labor Statistics. Employment gains occurred in several industries, led by professional and business services, construction, health care, and food services and drinking places. Mining employment continued to decline.

The number of unemployed persons, at 7.9 million, was essentially unchanged in December, and the unemployment rate was 5.0 percent for the third month in a row. Over the past 12 months, the unemployment rate and the number of unemployed persons were down by 0.6 percentage point and 800,000, respectively.

The number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged at 2.1 million in

December and accounted for 26.3 percent of the unemployed. The number of long-term unemployed has shown little movement since June, but was down by 687,000 over the year.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in December decreased $12.0 billion or 5.1 percent to $225.4 billion, according to the announcement by the U.S. Census Bureau. This decrease, down four of the last five months, followed a 0.5 percent November decrease. Excluding transportation, new orders decreased 1.2 percent. Excluding defense, new orders decreased 2.9 percent.

Transportation equipment, also down four of the last five months, led the decrease, $10.1 billion or 12.4 percent to $71.3 billion.

Shipments of manufactured durable goods in December, down two of the last three months, decreased $5.4 billion, or 2.2 percent, to $235.8 billion. This followed a 0.6 percent November increase.

Transportation equipment, also down two of the last three months, led the decrease, $5.4 billion or 6.7 percent to $75.1 billion.

According to the final report, shipments of furniture and related products increased 6.3 percent over November 2014 while orders increased 5.1 percent. This category is showing year-to-date shipment increase of 6.7 percent with orders up 5.7 percent.

Executive Summary

According to our latest survey of residential furniture manufacturers and distributors, new orders increased 4 percent in November 2015 compared to November 2014 with some 52 percent of the participants reporting increases. Year-to-date, new orders dropped to a 4 percent increase, compared to a 6 percent increase reported last year comparing 2014 to 2013. Some 53 percent of the participants reported increased year-to-date new orders.

Shipments were up 5 percent over November 2014 and up 6 percent year-to-date. Shipments increased for 64 percent of the participants, down from 70 percent in October.

Backlogs were flat comparing both November to October and November to November 2014.

The above comparisons, coupled with the October results of a 1 percent increase in orders seems to be in line with several conversations we have had with folks, most noting that overall business seems to have slowed down a bit, both at retail and wholesale. That is certainly not true for all, but when just over 50 percent of the participants are reporting any increase at all in orders, that is a good indication that business has slowed.

The other indicators showed a 1 percent decline in receivables in spite of a 5 percent increase in shipments for the month (though receivables increased 1 percent from October in spite of a 3 percent decline in shipments). We will wait to get December results to see if this was just timing.

Inventories remained 7 percent ahead of November 2014, a bit higher than current business but not too far out of line yet based on shipments.

National

On the national front, consumer confidence ticked up a bit to 98.1 in January from 96.3 in December. The Present Situation Index was unchanged while the Expectations Index increased slightly. According to the Conference Board, “Consumers do not foresee the volatility in financial markets as having a negative impact on the economy.”

While that is probably true for some of the lower wage jobs, we still believe that overall it can have some impact on middle class workers who may not have millions in the market, but have some invested and hear their bosses complaining, which gives them cause for concern.

The Gross Domestic Product increase for the third quarter was estimated at a 2 percent with 15 of the 22 industry groups contributing. The 2 percent increase compare to a 3.9 percent growth rate in the second quarter. Wholesale trade decreased 5.8 percent, the largest decrease since the second quarter of 2009.

Existing home sales in December increased 14.7 percent over November, somewhat expected due to the slow rollout of the Know Before You Owe initiative that slowed sales in November. Single-family home sales were up 16.1 percent over November and were 7.1 percent ahead of December 2014. Single-family sales were up over last year 11.9 percent in the Northeast, 9.9 percent in the Midwest, 4.6 percent in the South and 8.9 percent in the West.

New house sales were also up, rising 9.9 percent over December 2014 driven by large increases in the Midwest and West, with the South flat and Northeast down 6.5 percent. Housing starts were down a bit from November but up 6.4 percent over December 2014.

Retail sales were off in total just slightly, driven primarily by gasoline station sales due to the drop in gas prices. Sales at furniture and home furnishings stores were up 6.0 percent compared to December 2014 and finished the year up 5.8 percent, ranking 5th of the 13 categories in growth over last year.

The Consumer Price Index seemed to indicate that overall inflation is not a big issue though that has been helped by lower gas and oil prices.

Employment rose by 292,000 in December and the unemployment rate remained at 5 percent (3 months in a row).

Summary

As we have said before, there are so many good signs for the industry—low interest rates, a stronger housing market, inflation at reasonable levels, yet business is not following. We continue to believe that the negative political jargon, as well in some cases, the volatile stock market is holding business back.

There is also concern that the slower economic growth, and decreasing demand for buying in oil-producing metro areas may slow some growth in housing. But since there is usually some lag in the purchase of furniture, hopefully we will not see much impact from that in the near term.

With the housing market strength, we believe over the next several months, this strength will help sustain business. We have had several decent growth years in a row, so a bit slower growth should not make for bad times. It just doesn't feel as good.

Unfortunately, business is not good for all and we will have to hear more negativity from the politicians for several more months. So for now, we say hang in there. Most economists believe we are in a slower growth period but not heading to a recession. Hopefully, they are the right ones.

Estimated Business Activity (Millions of Dollars)						
	2015			2014		
	November	October	11 Months	November	October	11 Months
New Orders	2,126	2,221	23,562	2,037	2,190	22,634
Shipments	2,120	2,169	23,786	2,028	2,019	22,345
Backlog (R)	2,162	2,156		2,156	2,147	

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

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