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 June rose 9 percent over June 2012 but fell 6 percent from May, which is somewhat normal. The drop from May is usually caused by some market orders placed in May which would not normally be placed in June. Still, the increase over June a year ago was good news. New orders were up for 64 percent of the participants down slightly from 68 percent for May.

Year-to-date, new orders remained 4 percent higher than the same period a year ago (actually up 0.7 percent from last month's year-to-date results, but rounding caused both months to show the 4 percent increase. Approximately 76 percent of the participants reported increased orders year-to-date up from approximately 67 percent reporting last month.

Shipments and Backlogs

Shipments were also up very nicely in June, rising 8 percent over June 2012. Approximately 72 percent of the participants reported increased shipments over June a year ago.

The increase in shipments in June caused the year-to-date comparison to increase 3 percent, up from 2 percent last month. Approximately 67 percent of the participants reported increased shipments year-to-date, with several only off less than 2 percent.

Backlogs increased 10 percent from June a year ago up from 8 percent reported last month. Backlogs fell 5 percent from May as shipments exceeded new orders.

Furniture Insights®
A Monthly Newsletter
Smith Leonard PLLC

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Receivables and Inventories

Receivables were up 4 percent over last year somewhat in line with year-to-date shipments. Receivables increased 6 percent over May, in line with the increase in shipments from May to June.

Inventories in June were flat with both May 2013 and June 2012, down from 1 percent from increases reported last month. Overall, considering the increase in orders and shipments, inventories appear to be very much in line.

Factory and Warehouse Employees and Payrolls

The number of factory and warehouse employees were even with May 2013 and up 3 percent over June 2012. The 3 percent increase was consistent with both April and May results.

Factory and warehouse payrolls were up 7 percent over June 2012, in line with both the increase in orders and shipments. Year-to-date, payrolls are now up 4 percent over the same period a year ago, up from 3 percent reported last month.

National

Consumer Confidence

According to The Conference Board, the Consumer Confidence Index®, which had declined in July, increased slightly in August. The Index now stands at 81.5 (1985=100), up from 81.0 in July. The Present Situation Index decreased to 70.7 from 73.6. The Expectations Index increased to 88.7 from 86.0 last month.

Lynn Franco, Director of Economic Indicators at The Conference Board said: "Consumer Confidence increased slightly in August, a result of improving short-term expectations. Consumers were moderately more upbeat about business, job and earning prospects. In fact, income expectations, which had declined sharply earlier this year with the payroll tax hike, have rebounded to their highest level in two and a half years. Consumers' assessment of current business and labor market conditions, on the other hand, was somewhat less favorable than last month."

Consumers' assessment of current conditions moderately declined. Those stating business conditions are "good" decreased to 18.4 percent from 20.8 percent, while those stating business conditions are "bad" was virtually unchanged at 24.8 percent. Consumers' appraisal of the labor market was mixed. Those claiming jobs are "plentiful" decreased to 11.4 percent from 12.3 percent, while those claiming jobs are "hard to get" declined to 33.0 percent from 35.2 percent.

Consumers' expectations, which had retreated in July, increased in August. Those expecting business conditions to improve over the next six months edged up to 20.1 percent from 19.9 percent. Those expecting business conditions to worsen declined slightly at 11.1 percent from 11.3 percent.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.6 percent in July to 96.0 (2004=100), following no change in June, and a 0.3 percent increase in May, according to the Conference Board.

Ataman Ozyildirim, economist at The Conference Board said: "Following moderate growth in the last few months, the U.S. LEI picked up in July, with widespread gains among its components. The pace of the LEI's growth over the last six months has nearly doubled, pointing to a gradually strengthening expansion through the end of the year. In July, average workweek in manufacturing was the weakest component."

Ken Goldstein, economist at The Conference Board said: "The improvement in the LEI, and pick up in the six-month growth rate, suggest better economic and job growth in the second half of 2013. However, the biggest uncertainties remain the pace of business spending and the impact of slower global growth on U.S. exports."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2 percent in July to 106.3 (2004=100), following a 0.1 percent increase in June, and a 0.3 percent increase in May.

The Conference Board Lagging Economic Index® (LAG) for the U.S. declined 0.2 percent in July to 118.2 (2004=100), following a 0.2 percent increase in June, and a 0.3 percent increase in May.

Housing

Existing-Home Sales

Existing-home sales rose in July, with the median price maintaining double-digit year-over-year increases, according to the National Association of Realtors® (NAR).

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, increased 6.5 percent to a seasonally adjusted annual rate of 5.39 million in July from a downwardly revised 5.06 million in June, and were 17.2 percent above the 4.60 million-unit pace in July 2012; sales have remained above year-ago levels for 25 months.

Single-family home sales rose 6.3 percent to a seasonally adjusted annual rate of 4.76 million in July from 4.48 million in June, and were 16.4 percent higher than the 4.09 million-unit level in July 2012. The median existing single-family home price was $214,000 in July, up 13.5 percent from a year ago.

Lawrence Yun, NAR chief economist, said changes in affordability are impacting the market. "Mortgage interest rates are at the highest level in two years, pushing some buyers off the sidelines," he said. "The initial rise in interest rates provided strong incentive for closing deals. However, further rate increases will diminish the pool of eligible buyers."

Despite higher mortgage interest rates, Yun identified compensating factors that can sustain a continued recovery. "Although housing affordability conditions will become less attractive, jobs are being added to the economy, and mortgage underwriting standards should normalize over time from current stringent conditions as default rates fall."

Total housing inventory at the end of July rose 5.6 percent to 2.28 million existing homes available for sale, which represents a 5.1-month supply at the current sales pace, unchanged from June. Listed inventory is 5.0 percent below a year ago, when there was a 6.3-month supply. "Tight inventory in many areas means above-normal price growth for the foreseeable future," Yun said.

The median price for existing-home sales has risen at double-digit rates for the past eight months, and is now 7.3 percent below the all-time record of $230,400 in July 2006. Two years ago, the median price was 25.7 percent below the peak.

Regional

Regionally, existing-home sales in the Northeast surged 12.7 percent to an annual rate of 710,000 in July and were 20.3 percent above July 2012. The median price in the Northeast was $271,200, up 6.7 percent from a year ago.

Existing-home sales in the Midwest rose 5.8 percent in July to a pace of 1.28 million, and were 20.8 percent higher than a year ago. The median price in the Midwest was $168,300, which was 9.5 percent above July 2012.

In the South, existing-home sales increased 5.0 percent to an annual level of 2.11 million in July and were 16.6 percent above July 2012. The median price in the South was $183,400, up 13.6 percent from a year ago.

Existing-home sales in the West rose 6.6 percent to a pace of 1.29 million in July and were 13.2 percent higher than a year ago. The median price in the West, driven the most by a supply imbalance, was $287,500, which was 19.2 percent above July 2012.

New Residential Sales

Sales of new single-family houses in July 2013 were at a seasonally adjusted annual rate of 394,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 13.4 percent below the revised June rate of 455,000, but was 6.8 percent above the July 2012 estimate of 369,000.

The median sales price of new houses sold in July 2013 was $257,200 (up from $249,700 last month); the average sales price was $322,700 (up from $295,000). The seasonally adjusted estimate of new houses for sale at the end of July was 171,000. This represents a supply of 5.2 months at the current sales rate.

Compared to July 2012, sales of new houses in July 2013 were up 10 percent in the Northeast and 16.4 percent in the South. Sales were flat in the Midwest and down 7.8 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 July were at a seasonally adjusted annual rate of 896,000. This was 5.9 percent above the revised June estimate of 846,000 and was 20.9 percent above the July 2012 rate of 741,000.

Single-family housing starts in July were at a rate of 591,000; this was 2.2 percent below the revised June figure of 604,000, but was 15.4 percent higher than July a year ago. Single-family starts were up over July 2012 33.3 percent in the Northeast; 24.7 in the Midwest, 12.5 percent in the South and 9.1 percent in the West.

Retail Sales

The U.S. Census Bureau reported that advance estimates of U.S. retail and food services sales for July, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $424.5 billion, an increase of 0.2 percent from the previous month, and 5.4 percent above July 2012. Total sales for the May through July 2013 period were up 5.2 percent from the same period a year ago.

Retail trade sales in July were up 0.1 percent from June 2013 and 5.6 percent above last year. Auto and other motor vehicle dealers were up 13.3 percent from July 2012 and nonstore retailers were up 8.8 percent from last year.

On an adjusted basis, sales at furniture and home furnishings stores were up 2.9 percent for July 2013 versus July 2012. Year-to-date, sales at these stores were up 3.2 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 July on a seasonally adjusted basis, according to the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index increased 2.0 percent before seasonal adjustment.

The rise in the seasonally adjusted all items index was the result of increases in a broad array of indexes including shelter, gasoline, apparel, and food. Despite the gasoline increase, the energy index rose only 0.2 percent as the natural gas and electricity indexes declined. The increase in the food index was caused by a sharp rise in the fruits and vegetables index; other food indexes were mixed.

The index for all items less food and energy increased 0.2 percent in July, the third straight such increase. Along with the advances in the shelter and apparel indexes, the indexes for medical care, tobacco, and new vehicles all rose. In contrast, the indexes for household furnishings and operations, airline fares, and used cars and trucks all declined in July.

The all items index increased 2.0 percent over the last 12 months. The index for all items less food and energy has risen 1.7 percent over the last year; this compares to 1.6 percent for the 12 months ending June. The energy index has risen 4.7 percent over the last 12 months, its largest increase since the 12 months ending February 2012. The food index has risen 1.4 percent, the same figure as in May and June.

Employment

Total nonfarm payroll employment increased by 162,000 in July, and the unemployment rate edged down to 7.4 percent, according to the recent report from the U.S. Bureau of Labor Statistics. Employment rose in retail trade, food services and drinking places, financial activities, and wholesale trade.

The number of unemployed persons, at 11.5 million, edged down in July. Over the year, this measure was down by 1.2 million.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in July decreased $17.8 billion or 7.3 percent to $226.6 billion, according to the U.S. Census Bureau. This decrease, down following three consecutive monthly increases, followed a 3.9 percent June increase. Excluding transportation, new orders decreased 0.6 percent. Excluding defense, new orders decreased 6.7 percent.

Transportation equipment, also down three consecutive monthly increases, led the decrease, $16.7 billion or 19.4 percent to $69.7 billion. This was led by nondefense aircraft and parts, which decreased $14.5 billion.

Shipments of manufactured durable goods in July, down three of the last four months, decreased $0.8 billion or 0.3 percent to $228.8 billion. This followed a 0.1 percent June decrease.

Computers and electronic products, also down three of the last four months, drove the decrease, $0.9 billion or 3.2 percent to $26.6 billion. This followed a 1.1 percent June increase.

According to the report issued for June 2013, new orders for furniture and related products were up over June 2012 by 6 percent and up 2.6 percent year-to-date. Shipments in this category were up 4.2 percent June 2013 over June 2012 and up 3.1 percent year-to-date.

Executive Summary

Our recent survey of residential furniture manufacturers and distributors provided some more reasonably good news with new orders up 9 percent for the June 2013 to June 2012 comparisons. This brought new orders up 4 percent year-to-date.

Shipments were also up nicely, at 8 percent over June 2012, bringing year-to-date shipments up 3 percent. And backlogs are up nicely (may be a bit too nice) at 10 percent over last year, up for an 8 percent increase last month. But backlogs did drop 5 percent from May 2013 so at least they came down a bit.

The year-to-date results of both new orders and shipments seem to reflect pretty much what we have been hearing. That is that business is "ok." It continues to appear from what our survey shows as well as conversations, there is definitely some business shifting, i.e. some taking business from others as can be seen in our survey results of the percent of those that are up versus those that are down (see details in the first two portions of survey details).

Receivable and inventory levels continue to be in good shape as receivable levels are very much in line with the results of shipments. Inventories are flat compared to last year so with business being up, although not what we would like, it seems that inventories are very much under control.

Factory and warehouse employees and payrolls also appear to be in line based on the other factors in the survey.

On a national level, things had been pretty good until a couple of happenings lately. Consumer confidence has continued to build, though at a reasonably slow pace. The leading indicators continue to improve and the housing market is pretty stable and growing. Retail, while not great, continues to improve. And until recently, the stock market has been kind.

The negatives have been lack of sufficient job growth and to a degree, highly fluctuating gasoline and energy costs. Now along comes Syria and the stock market does not react very well and gasoline moves up considerably. These along with high unemployment will not help us get confidence back to the levels we need. And likely the rising mortgage interest rates will affect the growth in housing, though really – a 4 to 5 percent mortgage rate is still very attractive, it just doesn't seem like it after the 3 percent ranges.

But overall, key indicators for the industry appear fairly positive. The reports from the recent Vegas Market were positive. And, for the most part, the people we have spoken with recently have also been positive, after you get by the fact that it's not as good as they would like for it to be. While we would love to see more robust growth, at least the growth that is happening is helping many in the industry.

Estimated Business Activity (Millions of Dollars)						
	2013			2012		
	June	May	6 Months	June	May	6 Months
New Orders	1,902	2,013	11,617	1,753	1,892	11,132
Shipments	2,213	1,995	11,712	2,058	1,930	11,399
Backlog	1,858	1,948		1,696	1,796	

Key Monthly Indicators			
	June 2013 From May 2013 Percent Change	June 2013 From June 2012 Percent Change	6 Months 2013 Versus 6 Months 2012 Percent Change
New Orders	-6	+9	+4
Shipments	+6	+8	+3
Backlog	-5	+10	
Payrolls	+9	+7	+4
Employees	–	+3	
Receivables	+6	+4	
Inventories	–	–	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2012				
June	+3	+7	+3	+4
July	+4	+3	+2	+3
August	+8	+6	+6	+3
September	+10	-1	+13	+4
October	+6	+5	+15	+4
November	-1	+3	+8	+4
December	-7	-1	+5	+3
2013				
January	+7	+10	–	+3
February	-3	-2	-1	+3
March	-1	-3	–	+2
April	+11	+2	+6	+6
May	+6	+3	+9	+3
June	+9	+8	+10	+3