SMITH LEONARD
Accountants & Consultants

December 2015

Furniture Insights®

Monthly Results

New Orders

New orders in October 2015 increased 1 percent over October 2014, according to our latest survey of residential furniture manufacturers and distributors. The 1 percent increase followed a flat September comparison, which followed 18 consecutive months of increases.

Year-to-date, new orders were 4 percent higher than the first ten months of 2014. October 2014 year-to-date orders were up 6 percent over the same period in 2013. New orders were down for the majority of the participants in October only results, but remained up year-to-date for some 55 percent of the participants.

Shipments and Backlogs

Shipments in October 2015 were up 7 percent over October 2014, up from a 3 percent increase reported last month. Shipments for the month were up for some 53 percent of the participants.

Year-to-date, shipments were up 7 percent over the first ten months of the year, the same increase as reported last month. In October 2014, shipments were up 6 percent over the previous year. Shipments year-to-date were up for almost 70 percent of the participants.

Backlogs were even with October 2014 and up 2 percent over September as new orders in dollars exceeded shipments.

Receivables and Inventories

Receivables were down 1 percent from October 2014 in spite of the 7 percent increase in shipments. Receivables were level with September even with the 2 percent increase in shipments from September to October. Overall, as we have said before, receivables remain in good shape.

Inventories in October 2015 were even with September but up 7 percent over October 2014. Inventories built earlier in the year when business seemed a bit stronger and have remained fairly high for a few months. The good news is they are not continuing to rise.

Furniture Insights®
A Monthly Newsletter

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Factory and Warehouse Employees and Payrolls

The number of factory and warehouse employees fell 1 percent from September levels and were up 3 percent over October 2014. This seems consistent with current business.

Factory and warehouse payrolls fell 3 percent from September and were 6 percent higher than October 2014. Factory and warehouse payrolls remained 7 percent ahead year-to-date, the same as reported last month.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®*, which had decreased moderately in November, improved in December. The Index now stands at 96.5 (1985 = 100), up from 92.6 in November. The Present Situation Index increased from 110.9 last month to 115.3 in December, while the Expectations Index improved to 83.9 from 80.4 in November.

"Consumer confidence improved in December, following a moderate decrease in November," said Lynn Franco, Director of Economic Indicators at The Conference Board. "As 2015 draws to a close, consumers' assessment of the current state of the economy remains positive, particularly their assessment of the job market. Looking ahead to 2016, consumers are expecting little change in both business conditions and the labor market. Expectations regarding their financial outlook are mixed, but the optimists continue to outweigh the pessimists."

Consumers' appraisal of current conditions was mixed in December. Those saying business conditions are "good" increased from 25.0 percent to 27.3 percent. However, those saying business conditions are "bad" also increased from 16.9 percent to 19.8 percent. Consumers, however, were more positive about the labor market. The proportion claiming jobs are "plentiful" increased from 21.0 percent to 24.1 percent, while those claiming jobs are "hard to get" decreased to 24.7 percent from 25.8 percent.

Consumers' optimism about the short-term outlook was somewhat mixed in December. Those expecting business conditions to improve over the next six months decreased slightly to 15.2 percent from 15.7 percent. However, those expecting business conditions to worsen increased slightly to 11.0 percent from 10.6 percent.

Consumers' outlook for the labor market was more optimistic. Those anticipating more jobs in the months ahead increased slightly to 12.9 percent from 12.0 percent, while those anticipating fewer jobs decreased from 18.5 percent to 16.6 percent. The proportion of consumers expecting their incomes to increase declined from 17.3 percent to 16.3 percent. However, the proportion expecting a reduction in income decreased from 11.8 percent to 9.7 percent.

University of Michigan Surveys of Consumers

According to the Surveys of Consumers University of Michigan, consumer confidence rose to its highest level since July, with the December reading nearly equal to the 2015 average of 92.9—which was the highest since 2004. The December gain was largely due to lower inflation, which bolstered real incomes and brightened buying plans for household durables. Indeed, there have been only three surveys in more than the past half century in which a higher proportion mentioned the availability of price discounts for durables. Overall, the data point toward gains of 2.8 percent in real personal consumption expenditures during 2016.

Surveys of Consumers chief economist, Richard Curtin said: "Just as consumer optimism became dependent on very low inflation, the Fed has begun to take steps to accommodate a higher inflation rate. Since wages are never first to incorporate inflationary adjustments, consumers will make their purchases even more contingent on low prices. Moreover, given the weakness in the global economy and the strong dollar, discounting will continue unabated. Indeed, consumers' first reaction to the zero rate liftoff has been to emphasize the importance of compensating price discounts. As a result, the Fed policies will need to be much stronger to overcome the disinflationary psychology of consumers."

Consumers' assessments of their finances rebounded in December, although they remained slightly less favorable than at the start of 2015. While the smallest proportion of consumers in more than ten years complained that inflation had eroded their living standards, this was partially offset by less favorable references to net household wealth than prior to the stock swoon in late August. Importantly, inflation-adjusted income expectations reached their most favorable level since last 2002. This was due in part to near record lows in inflation expectations as well as slightly improved income expectations.

Buying plans for household durables reached their highest level in a decade due to the availability of price discounts. There have been only three surveys in more than the past half century in which a higher proportion mentioned the availability of price discounts for durables. Home buying plans recorded a significant jump in the number that made purchases contingent on the availability of reduced home prices in the latest survey, and nearly half of all consumers continued to cite the availability of low mortgage interest rates.

The Sentiment Index was 92.6 in the December 2015 survey, between November's 91.3 and last year's 93.6. The Current Conditions Index was 108.1, above last month's 104.3 and last year's 104.8. The Expectations Index was 82.7 in December, just below last month's 82.9 and last year's 86.4.

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 2.0 percent in the third quarter of 2015, according to the "third" estimate released by the Bureau of Economic Analysis. 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, and in state and local government spending that were partly offset by a deceleration in imports.

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 the production, increased 2.7 percent in the third quarter, compared with an increase of 2.2 percent in the second.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.4 percent in November to 124.6 (2010 = 100), following a 0.6 percent increase in October, and no change in September.

"The U.S. LEI registered another increase in November, with building permits, the interest rate spread, and stock prices driving the improvement," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "Although the six-month growth rate of the LEI has moderated, the economic outlook for the final quarter of the year and into the new year remains positive."

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

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.3 percent in November to 119.6 (2010 = 100), following a 0.2 percent increase in October, and a 0.5 percent increase in September.

Housing

Existing-Home Sales

Existing-home sales dropped off considerably in November to the slowest pace in 19 months, but some of the decrease was likely because of an apparent rise in closing timeframes that may have pushed some transactions into December, according to the National Association of Realtors® (NAR). All four major regions saw sales declines in November.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, fell 10.5 percent to a seasonally adjusted annual rate of 4.76 million in November (lowest since April 2014 at 4.75 million) from a downwardly revised 5.32 million in October. After last month's decline (largest since July 2010 at 22.5 percent), sales are now 3.8 percent below a year ago – the first year-over-year decrease since September 2014.

Single-family home sales dropped 12.1 percent to a seasonally adjusted annual rate of 4.15 million in November from 4.72 million in October, and are now 4.6 percent lower than the 4.35 million pace a year ago. The median existing single-family home price was $221,600 in November, up 6.6 percent from November 2014.

Existing condominium and co-op sales increased 1.7 percent to a seasonally adjusted annual rate of 610,000 units in November from 600,000 in October, and were 1.7 percent above November 2014 (600,000 units). The median existing condo price was $211,400 in November, which was 4.7 percent above a year ago.

Lawrence Yun, NAR chief economist, says multiple factors led to November's sales decline, but the primary reason could be an anomaly as the industry adjusts to the new Know Before You Owe rule.

"Sparse inventory and affordability issues continue to impede a large pool of buyers' ability to buy, which is holding back sales," he said. "However, signed contracts have remained mostly steady in recent months, and properties sold faster in November. Therefore it's highly possible the stark sales decline wasn't because of sudden, withering demand."

According to Yun, although NAR are adjusting accordingly to the Know Before You Owe initiative, the main takeaway so far has been the need for longer closing times. According to NAR's Realtors® Confidence Index, 47 percent of respondents in November reported that they are experiencing a longer time to close compared to a year ago, up from 37 percent in October.

"It's possible the longer timeframes pushed a latter portion of would-be November transactions into December," says Yun. "As long as closing timeframes don't rise even further, it's likely more sales will register to this month's total, and November's large dip will be more of an outlier."

The median existing-home price for all housing types in November was $220,300, which was 6.3 percent above November 2014 ($207,200). November's price increase marks the 45th consecutive month of year-over-year gains.

Total housing inventory at the end of November decreased 3.3 percent to 2.04 million existing homes available for sale, and was 1.9 percent lower than a year ago (2.08 million). Unsold inventory was at a 5.1-month supply at the current sales pace, up from 4.8 months in October.

The percent share of first-time buyers was at 30 percent in November, down from 31 percent both in October and a year ago. Despite first-time buyers' continued absence from the market, NAR's inaugural quarterly *Housing Opportunities and Market Experience* survey – released earlier this month – found that an overwhelming majority of current renters who are 34 years of age or younger want to own a home in the future (94 percent). The top reason given by renters for not currently owning was the inability to afford to buy.

"The Federal Reserve's decision this month to raise short-term rates is the first of many increases over the next couple of years," says Yun. "Although this first move will likely have minimal impact on mortgage rates, additional hikes will push borrowing costs to around 4.50 percent by the end of next year. With home prices expected to continue rising, wages and new home construction need to start increasing substantially to preserve affordability."

Regional

November existing-home sales in the Northeast declined 9.2 percent to an annual rate of 690,000, but was still 1.5 percent above a year ago. The median price in the Northeast was $254,800, which was 3.2 percent above November 2014.

In the Midwest, existing-home sales descended 15.4 percent to an annual rate of 1.10 million in November, and were 2.7 percent below November 2014. The median price in the Midwest was $169,300, up 5.3 percent from a year ago.

Existing-home sales in the South decreased 6.2 percent to an annual rate of 1.98 million in November, and were 5.7 percent below November 2014. The median price in the South was $189,400, up 6.3 percent from a year ago.

Existing-home sales in the West dropped 13.9 percent to an annual rate of 990,000 in November, and were 4.8 percent lower than a year ago. The median price in the West was $319,700, which was 8.3 percent above November 2014.

New Residential Sales

Sales of new single-family houses in November 2015 were at a seasonally adjusted annual rate of 490,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 4.3 percent above the revised October rate of 470,000 and was 9.1 percent above the November 2014 estimate of 449,000.

The median sales price of new houses sold in November 2015 was $305,000; the average sales price was $374,900. The seasonally adjusted estimate of new houses for sale at the end of November was 232,000. This represents a supply of 5.7 months at the current sales rate.

Sales of new single-family houses by region were mixed with sales up 19.4 percent in the South and 4.7 percent in the West, but were down 13.8 percent in the Northeast and 10.2 percent in the Midwest.

Housing Starts

The U.S. Census Bureau and the Department of Housing and Urban Development jointly announced that privately-owned housing starts in November were at a seasonally adjusted annual rate of 1,173,000. This was 10.5 percent above the revised October estimate of 1,062,000 and was 16.5 percent above the November 2014 rate of 1,007,000.

Single-family housing starts in November were at a rate of 768,000; this was 7.6 percent above the revised October figure of 714,000. Single-family starts in November 2015 compared to November 2014, were up 9.1 percent in the Northeast, 13.3 percent in the South and 31.7 percent in the West, but were down 0.9 percent in the Midwest.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for November, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $448.1 billion, an increase of 0.2 percent from the previous month, and 1.4 percent above November 2014. Total sales for the September 2015 through November 2015 period were up 1.7 percent from the same period a year ago.

Retail trade sales were up 0.2 from October 2015, and up 0.7 percent above last year. Nonstore retailers were up 7.3 percent from November 2014 and food services and drinking places were up 6.5 percent from last year. Sales at gas stations was down 19.8 percent year-to-date.

On an adjusted basis, sales at furniture and home furnishings stores in November 2015 were up 5.4 percent over November 2014. Sales year-to-date for these stores were up 5.6 percent over a year ago.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in November 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 0.5 percent before seasonal adjustment.

The indexes for energy and food declined in November, offsetting an increase in the index for all items less food and energy and resulting in the seasonally adjusted all items index being unchanged. The energy index fell 1.3 percent, with all of the major component indexes declining except electricity. The food index fell 0.1 percent, as the index for food at home fell 0.3 percent, with five of the six major grocery store food group indexes declining.

The index for all items less food and energy rose 0.2 percent in November, the same increase as in September and October. The indexes for shelter, medical care, airline fares, new vehicles, and tobacco were among the indexes that rose in November. In contrast, the indexes for recreation, apparel, household furnishings and operations, and used cars and trucks all declined.

The all items index rose 0.5 percent over the last 12 months; this is the largest 12 month increase since the 12-month period ending December 2014. The food index rose 1.3 percent over the span, while the energy index declined 14.7 percent. The index for all items less food and energy rose 2.0 percent, its largest 12-month increase since the 12 months ending May 2014.

Employment

Total nonfarm payroll employment increased by 211,000 in November, and the unemployment rate was unchanged at 5.0 percent, according to the U.S. Bureau of Labor Statistics. Job gains occurred in construction, professional and technical services, and health care. Mining and information lost jobs.

In November, unemployment rate held at 5.0 percent, and the number of unemployed persons, at 7.9 million, was essentially unchanged. Over the past 12 months, the unemployment rate and the number of unemployed persons were down by 0.8 percentage point and 1.1 million, respectively.

The number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 2.1 million in November and has shown little movement since June. In November, these individuals accounted for 25.7 percent of the unemployed.

Durable Goods Orders and Factory Shipments

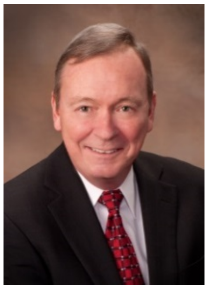
New orders for manufactured durable goods in November increased $0.1 billion or virtually unchanged to $238.8 billion, according to the announcement by the U.S. Census Bureau. This increase, up two consecutive months, followed a 2.9 percent October increase. Excluding transportation, new orders decreased 0.1 percent. Excluding defense, new orders decreased 1.5 percent.

Transportation equipment, also up two consecutive months, drove the increase, $0.3 billion or 0.4 percent to $82.2 billion.

Shipments of manufactured durable goods in November, up two of the last three months, increased $2.1 billion, or 0.9 percent, to $241.8 billion. This followed a 1.2 percent October decrease.

Transportation equipment, also up two of the last three months, drove the increase, $2.3 billion or 2.9 percent to $80.8 billion.

According to this report, new orders for furniture and related products were up 5.8 percent year-to-date and shipments were up 6.7 percent.



Executive Summary

According to our latest survey of residential furniture manufacturers and distributors, new orders in October increased 1 percent over October 2014 orders. This followed a flat September comparison, the first time in 18 months that orders did not increase.

Year-to-date, new orders remained 4 percent ahead of the same period for 2014. October 2014 year-to-date, new orders were 6 percent ahead of 2013. Year-to-date, new orders increased for some 55 percent of the participants.

Shipments were up 7 percent over October 2014 and remained 7 percent ahead year-to-date. Almost 70 percent of our participants reported increased shipments year-to-date.

Backlogs increased 2 percent over September and were about even with October 2014. Last year at this time, October 2014 backlogs were 9 percent higher than October 2013 so backlogs continue to be reasonably strong.

Receivable levels were actually down 1 percent from October 2014 levels in spite of the 7 percent increase in shipments for the month. Receivable levels have remained in good shape for some time now.

Inventories were flat with September levels and remained 7 percent higher than October 2014. Inventory levels seem to be in line considering the increase in shipments, but with order rate increases declining, inventories will need to be watched.

Factory and warehouse payrolls and employee levels continue to be in good shape considering current business conditions.

National

On the National level, the economy in general seems to be bumping along, at no great pace, but at least moving forward. The latest estimates indicated a 2 percent increase in GDP in the third quarter. The Feds finally raised interest rates slightly, after months of trying to decide when.

Housing results were mixed with existing home sales down in all four regions but new home sales were up overall, though not in the Northeast and Midwest. Some of the declines in existing home sales was believed to be due to an apparent rise in closing timeframes due to the new “Know Before You Owe” rule. (Again our government helping us.) Housing starts remain strong.

Retail sales in November were up slightly from October and up 1.7 percent over November 2014. Sales at furniture and home furnishings stores were up 5.4 percent over November 2014 and up 5.6 percent year-to-date. Gas stations were down 19.8 percent year-to-date, so those operations continue to keep overall retail numbers down.

Inflation continues to seem under control with the all items index increasing 0.5 percent for the 12 months ended November 2015, helped by low gas and oil prices. And the employment situation continues to improve at a reasonable rate.

The Conference Board’s Consumer Confidence Index improved in December after a moderate decrease in November. Consumers assessment of the current state of the economy was positive. The University of Michigan Surveys of Consumers rose to its highest level since July, and the December reading nearly equal to the 2015 average of 92.9—which was the highest since 2004.

Stock market volatility continues to be an issue with the Dow off close to 4 percent from its 52 week high and the S&P off close to 3 percent.

So what does all that mean for the residential furniture industry? We wish we knew. Based on conversations and street talk, business is spotty. Some say business has really softened since mid-summer, but in another breath say it's "not bad," just not as good. Others say business is pretty good overall. According to our survey, some companies continue to struggle with continuous declining order rates.

As we have noted before, with confidence pretty good, low inflation, low interest rates, decent housing results, low gas prices, and low mortgage rates, one would think that furniture sales should be good. So with all that, we continue to believe the industry as a whole should continue to show improvement into 2016. Let's hope the negative election jargon doesn't pull down the other positives.

Here's to a great 2016. Happy New Year!

Estimated Business Activity (Millions of Dollars)						
	2015			2014		
	October	September	10 Months	October	September	10 Months
New Orders	2,221	2,275	21,436	2,190	2,276	20,597
Shipments	2,169	2,139	21,703	2,019	2,073	20,300
Backlog (R)	2,156	2,123		2,147	2,059	

Key Monthly Indicators			
	October 2015 From September 2015 Percent Change	October 2015 From October 2014 Percent Change	10 Months 2015 Versus 10 Months 2014 Percent Change
New Orders	-1	+1	+4
Shipments	+2	+7	+7
Backlog	+2	–	
Payrolls	-3	+6	+7
Employees	-1	+3	
Receivables	–	-1	
Inventories	–	+7	

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