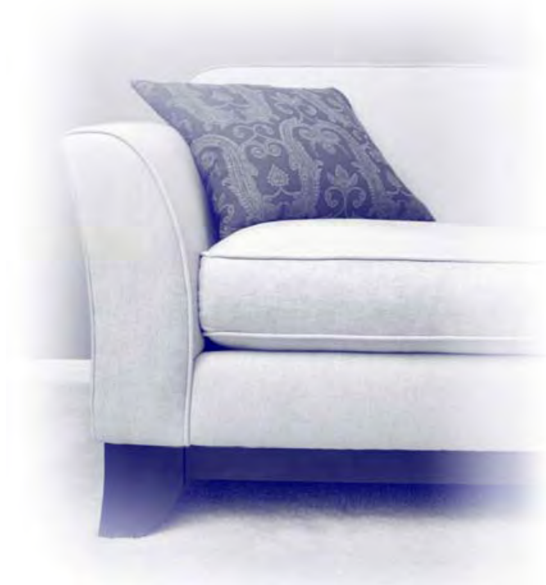
SmithLeonard
Accountants & Consultants

January 2013

Furniture Insights®

Monthly Results



New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders fell 1 percent in November 2012 compared to November 2011 and were off 4 percent from October. As we noted last month, monthly comparisons around the High Point Market dates are sometimes a bit misleading due to timing of Market and related orders written.

November 2011 orders were up 13 percent over November 2010, but the October 2011 Market ended on October 27th, so obviously all Market orders were not written by the end of October and some fell into November. This year, Market was a bit earlier in October so we imagine that has had some impact on the monthly results.

Year-to-date, new orders remained 5 percent ahead of 2011. For the eleven months, orders were up for 67 percent of the participants down slightly from last month, but there were a good number of participants that were just slightly under last year.

Shipments and Backlogs

Shipments in November were up 3 percent over November 2011 as well as 3 percent over October. Last November (2011) shipments were 10 percent higher than November 2010, so we are comparing to a relatively strong month last year.

Year-to-date, shipments were up 6 percent over last year, down slightly from last month's 7 percent increase. Approximately 65 percent of the participants reported increased shipments for the 11 months, the same percentage as reported last month.

Backlogs fell slightly from October with the value of shipments slightly exceeding orders. Backlogs, in November, were 8 percent higher than November 2011, down from a 15 percent increase reported last month. Again, we think timing of market orders would have impacted these results.

Furniture Insights®
A Monthly Newsletter

Smith Leonard PLLC

Kenneth D. Smith, CPA

4035 Premier Drive, Suite 300
High Point, North Carolina 27265
Telephone (336) 883-0181 | facsimile: (336) 841-8764
E-Mail: ksmith@smithleonardcpas.com

Receivables and Inventories

Receivables increased 4 percent over October, in line with the increase in shipments from October to November. Receivable levels were 1 percent lower than November 2011, which appears to be very good considering the 6 percent increase in year-to-date shipments.

Inventory levels fell 1 percent from October and were 7 percent above November 2011. This was down from an 8 percent increase reported last month, and we hope this is a trend to make sure inventory levels do not get out of hand.

Factory and Warehouse Employees and Payrolls

The number of factory and warehouse employees was 4 percent higher than November 2011, the same as the October 2012 to October 2011 comparison. The number of these employees actually increased 1 percent from October to November.

But it appears that payrolls were kept in check with November payrolls falling 4 percent from October and 1 percent from November a year ago. Total factory and warehouse payrolls year-to-date, were 5 percent over the same period a year ago, the same as reported last month and seemingly in line with current volume levels.

National

Consumer Confidence

According to The Conference Board, the Consumer Confidence Index®, which had declined in December, fell further in January. The Index now stands at 58.6 (1985=100), down from 66.7 in December. The Expectations Index declined to 59.5 from 68.1. The Present Situation Index decreased to 57.3 from 64.6 last month.

Lynn Franco, Director of Economic Indicators at The Conference Board said: “Consumer Confidence posted another sharp decline in January, erasing all of the gains made through 2012. Consumers are more pessimistic about the economic outlook and, in particular, their financial situation. The increase in the payroll tax has undoubtedly dampened consumers’ spirits and it may take a while for confidence to rebound and consumers to recover from their initial paycheck shock.”

Consumers’ appraisal of current conditions deteriorated in January. Those claiming business conditions are “good” declined to 16.7 percent from 17.2 percent, while those stating business conditions are “bad” increased to 27.4 percent from 26.3 percent. Consumers’ assessment of the labor market has also grown more negative. Those saying jobs are “plentiful” declined to 8.6 percent from 10.8 percent, while those claiming jobs are “hard to get” increased to 37.7 percent from 36.1 percent.

Consumers’ optimism about the short-term outlook continued to deteriorate in January. Those expecting business conditions to improve over the next six months declined to 15.4 percent from 18.1 percent. However, those expecting business conditions to worsen declined slightly to 20.6 percent from 21.1 percent.

Gross Domestic Product (GDP)

Real gross domestic product – the output of goods and services produced by labor and property located in the United States – decreased at an annual rate of 0.1 percent in the fourth quarter of 2012, (that is, from the third quarter to the fourth quarter), according to the “advance” estimate released by the Bureau of Economic Analysis.

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

Real personal consumption expenditures increased 2.2 percent in the fourth quarter, compared with an increase of 1.6 percent in the third. Durable goods increased 13.9 percent, compared with an increase of 8.9 percent. Nondurable goods increased 0.4 percent, compared with an increase of 1.2 percent. Services increased 0.9 percent, compared with an increase of 0.6 percent.

Real federal government consumption expenditures and gross investment decreased 15.0 percent in the fourth quarter, in contrast to an increase of 9.5 percent in the third. National defense decreased 22.2 percent, in contrast to an increase of 12.9 percent. Nondefense increased 1.4 percent, compared with an increase of 3.0 percent. Real state and local government consumption expenditures and gross investment decreased 0.7 percent, in contrast to an increase of 0.3 percent.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. rose 0.5 percent in December to 93.9 (2004=100), following no change in November, and a 0.3 percent increase in October, according to the Conference Board.

Ataman Ozyildirim, economist at The Conference Board said: "The U.S. LEI rose sharply in December, led by a large improvement in initial claims for unemployment insurance and positive contributions from the interest rate spread and the ***Leading Credit Index™***. The increase in the LEI brought its six-month growth rate well above zero, with roughly two-thirds of the components advancing in the last six months. However, consumer expectations and manufacturers' new orders remain weak."

Ken Goldstein, economist at The Conference Board said: "The latest data suggest that a pickup in domestic growth is now more likely, compared to a few months ago. Housing, which has long been a drag, has turned into a positive for growth, and will help improve consumer balance sheets and strengthen consumption. However, for growth to gain more traction we also need to see better performance on new orders and an acceleration in capital spending."

Housing

Existing-Home Sales

Existing-home sales eased in December but are well above a year ago, while limited inventory maintained the upward momentum in home prices, according to the latest report from the National Association of Realtors® (NAR). Total sales in 2012 were the highest in five years, while the annual price rose the most since 2005.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, declined 1.0 percent to a seasonally adjusted annual rate of 4.94 million in December from a downwardly revised 4.99 million in November, but were 12.8 percent above the 4.38 million-unit level in December 2011.

The preliminary annual total for existing-home sales in 2012 was 4.65 million, up 9.2 percent from 4.26 million in 2011. It was the highest volume since 2007 when it reached 5.03 million and the strongest increase since 2004.

Single-family home sales slipped 1.4 percent to a seasonally adjusted annual rate of 4.35 million in December from 4.41 million in November, but were 11.5 percent above the 3.90 million-unit pace in December 2011. The median existing single-family home price was $180,300 in December, up 10.9 percent from a year ago.

Lawrence Yun, NAR chief economist, said pent-up demand is sustaining the market. “Record low mortgage interest rates clearly are helping many home buyers, but tight inventory and restrictive mortgage underwriting standards are limiting sales,” he said. “The number of potential buyers who stayed on the sidelines accumulated during the recession, but they started entering the market early last year as their financial ability and confidence steadily grew, along with home prices. Likely job creation and household formation will continue to fuel that growth. Both sales and prices will again be higher in 2013.” According to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage was a record low 3.35 percent in December, the same in November; it was 3.96 percent in December 2011.

Total housing inventory at the end of December fell 8.5 percent to 1.82 million existing homes available for sale, which represents a 4.4-month supply at the current sales pace, down from 4.8 months in November, and is the lowest housing supply since May of 2005 when it was 4.3 months, which was near the peak of the housing boom.

For all of 2012, the preliminary median existing-home price was $176,600, up 6.3 percent from $166,100 in 2011, and was the strongest annual price gain since 2005 when the median price rose 12.4 percent.

Existing condominium and co-op sales rose 1.7 percent to an annualized level of 590,000 in December from 580,000 in November, and are 22.9 percent higher than the 480,000-unit level a year ago. The median existing condo price was $184,100 in December, up 16.0 percent from December 2011.

Regional

Regionally, existing-home sales in the Northeast rose 3.2 percent to an annual rate of 640,000 in December and were 10.3 percent above December 2011. The median price in the Northeast was $231,600, up 5.3 percent from a year ago.

Existing-home sales in the Midwest fell 5.9 percent in December to a pace of 1.12 million and were 15.5 percent higher than a year ago. The median price in the Midwest was $144,800, which was 12.3 percent above December 2011.

In the South, existing-home sales declined 3.0 percent to an annual level of 1.95 million in December but were 14.7 percent above December 2011. The median price in the South was $161,100, up 11.0 percent from a year ago.

Existing-home sales in the West rose 5.1 percent to a pace of 1.23 million in December and were 8.8 percent higher than a year ago. The median price in the West was $239,900, which was 17.3 percent above December 2011.

New Residential Sales

Sales of new single-family houses in December 2012 were at a seasonally adjusted annual rate of 369,000, according to estimates released by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 7.3 percent below the revised November rate of 398,000, but was 8.8 percent above the December 2011 estimate of 339,000.

The median sales price of new houses sold in December 2012 was $248,900; the average sales price was $304,000. The seasonally adjusted estimate of new houses for sale at the end of December was 151,000. This represents a supply of 4.9 months at the current sales rate.

An estimated 367,000 new homes were sold in 2012. This was 19.9 percent above the 2011 figure of 306,000.

For the month of December 2012, sales of new houses were up 20.0 percent in the Northeast and 15.6 percent in the South. Sales were down 1.7 percent in the Midwest and down 1.2 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 December were at a seasonally adjusted annual rate of 954,000. This was 12.1 percent above the revised November estimate of 851,000 and was 36.9 percent above the December 2011 rate of 697,000.

Single-family housing starts in December were at a rate of 616,000; this was 8.1 percent above the revised November figure of 570,000. The December rate for units in buildings with five units or more was 330,000.

An estimated 780,000 housing units were started in 2012. This was 28.1 percent above the 2011 figure of 608,800.

For the month, single-family housing starts were up over last year 15.9 percent in the Northeast, 32.3 percent in the South and 43.3 percent in the West while the Midwest starts were down 21.7 percent.

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 $415.7 billion, an increase of 0.5 percent from the previous month and 4.7 percent above December 2011. Total sales for the 12 months of 2012 were up 5.2 percent from 2011. Total sales for the October through December 2012 period were up 4.2 percent from the same period a year ago.

Retail trade sales were up 0.4 percent from November 2012 and 4.4 percent above last year. Nonstore retailers were up 12.6 percent from December 2011 and miscellaneous store retailers were up 9.9 percent from last year.

On an adjusted basis, sales at furniture and home furnishings stores were up 1.4 percent over November 2012 and were up 6.1 percent over December 2011. For the year, sales at these stores were up 7.7 percent. This percentage increase was third among the 13 categories behind non-store retailers at 11.6 percent and motor vehicle and parts dealers at 7.9 percent.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in December on a seasonally adjusted basis, according to the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index increased 1.7 percent before seasonal adjustment.

The gasoline index declined again in December, but other indexes, notably food and shelter, increased, resulting in the seasonally adjusted all items index being unchanged. Gasoline was the only major energy index to decline; the indexes for natural gas and electricity both increased. Within the food category, five of the six major grocery store food groups increased as the food at home index rose for the third consecutive month.

The index for all items less food and energy increased 0.1 percent in December, the same increase as in November. Besides shelter, the indexes for airline fares, tobacco, and medical care also increased. The indexes for recreation, household furnishings and operations, and used cars and trucks all declined in December.

The all items index increased 1.7 percent over the last 12 months, compared to a 1.8 percent figure in November. The index for all items less food and energy rose 1.9 percent over the last 12 months, the same figure as last month. The food index has risen 1.8 percent over the last 12 months, and the energy index has risen 0.5 percent.

Employment

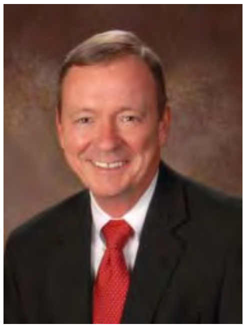
Nonfarm payroll employment rose by 155,000 in December, and the unemployment rate was unchanged at 7.8 percent, according to the recent report from the U.S. Bureau of Labor Statistics. Employment increased in health care, food services and drinking places, construction, and manufacturing. The number of unemployed persons, at 12.2 million, was little changed in December.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in December increased $10.0 billion or 4.6 percent to $230.7 billion, according to the release from the U.S. Census Bureau. This increase, up seven of the last eight months, followed a 0.7 percent November increase. Excluding transportation, new orders increased 1.3 percent. Excluding defense, new orders increased 1.2 percent.

Shipments of manufactured durable goods in December, up five of the last six months, increased $2.9 billion or 1.3 percent to $230.6 billion. This followed a 1.8 percent November increase.

According to the full report, shipments for furniture and related products through November were up 4.3 percent while orders were up 4.4 percent.



Executive Summary

In November, according to our latest survey of residential furniture manufacturers and distributors, new orders were reported down compared to the same month a year ago for the first time since January 2011. But, they were only down 1 percent and we believe the timing of Market probably had something to do with that since we were comparing to a 13 percent increase reported last year over 2010. The October Market was late in October 2011 which probably pushed orders to November, whereas this October Market ended mid-month so it is likely that some Market orders were written in October versus being pushed to November.

Year-to-date, new orders remained 5 percent ahead of last year's pace when they were, at this same time last year, 7 percent ahead of 2010 pace. Shipments were up 6 percent year-to-date compared to a 4 percent increase reported last November comparing to the first 11 months of 2010.

Receivables, inventories, factory and warehouse employees and payrolls all seem very much in line with expectations based on current volume levels.

So really, as much as business in general does not "feel" that great, we seem to keep plugging along. Recent conversations have noted that business has not been all that bad in January 2013.

We did somehow avert "falling off the cliff" or did we just drop a few feet while waiting on Washington to push the next crisis on us.

Consumer confidence fell again to a point where we have lost all the gains of 2012. Consumers, no matter how they vote, do seem to understand that at the federal and most state levels, our government for the most part, is a mess.

According to the government reports, sales at furniture and home furnishings stores were up 7.7 percent over last year. Of the 13 categories that are tracked, this ranked third behind non-store retailers up 11.6 percent and motor vehicle and parts dealers up 7.9 percent.

So why is the furniture business hanging in there? We think the significant pickup in housing has to be having the most impact (2012 existing-home sales were the highest in 5 years). More housing sales create demand for furniture. Better prices mean fewer people worried about being upside down in their mortgage. And tighter lending means that those who are buying new homes have more room in the budget for furniture versus being up to their neck in mortgage payments.

With that said, we have got to get consumer confidence back up for the furniture business to succeed. The housing impact will only last so long as it will not only eventually affect furniture, but also housing.

We hope those of you that were at Vegas, had a good Market and found the time well spent. Next thing you know, the April High Point Market will be on us. And for me, April and springtime cannot get here fast enough.

Estimated Business Activity (Millions of Dollars)						
	2012			2011		
	November	October	11 Months	November	October	11 Months
New Orders	1,798	1,849	20,220	1,816	1,737	19,315
Shipments	1,821	1,774	20,185	1,762	1,682	18,987
Backlog (R)	1,888	1,903		1,756	1,702	

(R) Revised

Key Monthly Indicators			
	November 2012 From October 2012 Percent Change	November 2012 From November 2011 Percent Change	11 Months 2012 Versus 11 Months 2011 Percent Change
New Orders	-4	-1	+5
Shipments	+3	+3	+6
Backlog	-1	+8	
Payrolls	-4	-1	+5
Employees	+1	+4	
Receivables	+4	-1	
Inventories	-1	+7	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2011				
November	+13	+10	+20	+2
December	+15	+17	+24	+4
2012				
January	+13	+8	+26	+4
February	+11	+17	+20	+6
March	+2	+7	+18	+6
April	-13	+7	+3	+6
May	+10	+7	+5	+4
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