SMITH LEONARD
Accountants & Consultants

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Furniture Insights®

Monthly Results

New Orders

New orders in November 2013 were 10 percent higher than new orders in November 2012 according to our latest survey of residential furniture manufacturers and distributors. This represented the eighth consecutive month that new orders exceeded the previous year's monthly comparison and was also one of the better comparisons.

The High Point Market was late in October so there was likely some impact of market orders not being placed until November. Yet October orders were 5 percent higher than October the year before. New orders were up for 77 percent of the participants in November, up from 56 percent reported for October and 72 percent for September.

Year-to-date, new orders remained 6 percent higher than 2012. New orders increased year-to-date for some 80 percent of our participants, the same as reported last month.

Shipments and Backlogs

Shipments in November 2013 were 10 percent higher than November 2012 and were up 7 percent over October results. This followed a 9 percent increase reported last month. Shipments were up for some 69 percent of the participants, up from 61 percent reported last month.

Year-to-date, shipments remained 5 percent ahead of 2012 through the eleven months. Approximately 68 percent of the participants reported increased shipments year-to-date, the same percentage that were reported last month.

Backlogs were 13 percent higher than November 2012. Backlogs fell 1 percent from October as shipments slightly exceeded orders.

Furniture Insights®
A Monthly Newsletter

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Receivables and Inventories

Receivable levels were 5 percent higher than November 2012, in line with year-to-date shipments and compared favorably to monthly shipments. These levels were flat with October in spite of the 7 percent increase in shipments.

Inventory levels fell 1 percent from October and were 3 percent higher than November 2012. The 3 percent increase was the same as reported last month. Overall, inventories appear in really good shape considering current business levels.

Factory and Warehouse Employees and Payrolls

The number of factory and warehouse employees increased 3 percent over November 2012. November 2013 levels were even with October. The 3 percent increase this month compares to a 4 percent increase reported last month.

Factory and warehouse payrolls remained considerably higher than November a year ago, showing a 15 percent increase, the same as reported last month. Year-to-date, these payrolls are 9 percent higher than a year ago. It is somewhat interesting in looking at individual participants as most are either up double digits and more or down.

National

Consumer Confidence

The Conference Board Consumer Confidence Index®, which had rebounded in December, increased again in January. The Index now stands at 80.7 (1985=100), up from 77.5 in December. The Present Situation Index increased to 79.1 from 75.3. The Expectations Index increased to 81.8 from 79.0 last month.

“Consumer confidence advanced in January for the second consecutive month,” said Lynn Franco, Director of Economic Indicators at The Conference Board. “Consumers’ assessment of the present situation continues to improve, with both business conditions and the job market rated more favorably. Looking ahead six months, consumers expect the economy and their earnings to improve, but were somewhat mixed regarding the outlook for jobs. All in all, confidence appears to be back on track and rising expectations suggest the economy may pick up some momentum in the months ahead.”

Consumers’ assessment of overall present-day conditions continues to improve. Those claiming business conditions are “good” increased to 21.5 percent from 20.2 percent, while those claiming business conditions are “bad” edged down to 22.8 percent from 23.2 percent. Consumers’ appraisal of the labor market was also more positive. Those saying jobs are “plentiful” ticked up to 12.7 percent from 11.9 percent, while those saying jobs are “hard to get” decreased slightly to 32.6 percent from 32.9 percent.

Consumers’ expectations, which had improved sharply in December, increased again in January. Those expecting business conditions to improve over the next six months remained unchanged at 17.4 percent, while those anticipating business conditions to worsen decreased to 12.1 percent from 13.9 percent. Consumers’ outlook for the labor market was mixed. Those expecting more jobs in the months ahead declined to 15.4 percent from 17.1 percent. However, those anticipating fewer jobs decreased to 18.3 percent from 19.4 percent. The proportion of consumers expecting their incomes to increase rose to 15.8 percent from 13.9

percent, while those anticipating a decrease in their incomes declined to 13.6 percent from 14.3 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 – increased at an annual rate of 3.2 percent in the fourth quarter of 2013 (that is, from the third quarter to the fourth quarter), according to the "advance" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 4.1 percent.

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

The deceleration in real GDP in the fourth quarter reflected a deceleration in private inventory investment, a larger decrease in federal government spending, a downturn in residential fixed investment, and decelerations in state and local government spending in nonresidential fixed investment that were partly offset by accelerations in exports and in PCE and a deceleration in imports.

The price index for gross domestic purchases, which measures prices paid by U.S. residents, increased 1.2 percent in the fourth quarter, compared with an increase of 1.8 percent in the third. Excluding food and energy prices, the price index for gross domestic purchases increased 1.7 percent in the fourth quarter, compared with an increase of 1.5 percent in the third.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.1 percent in December to 99.4 (2004=100), following a 1.0 percent increase in November, and a 0.1 percent increase in October, according to the Conference Board.

"Despite month-to-month volatility in the final quarter of 2013, the U.S. LEI continues to point to gradually strengthening economic conditions through early 2014," said Ataman Ozyildirim, Economist at The Conference Board. "The LEI was lifted by its financial components in December, but consumer expectations for business conditions and residential construction continue to pose risks."

"This latest report suggests steady growth this spring, but some uncertainties remain," said Ken Goldstein, Economist at The Conference Board. "Business caution and concern about unresolved federal budget battles persist, but the better-than-expected holiday season might point to sustained stronger demand and could put the U.S. on a faster growth track for 2014."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2 percent in December to 108.1 (2004 = 100), following a 0.4 percent increase in November, and a 0.1 percent increase in October.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.3 percent in December to 121.2 (2004 = 100), following no change in November, and a 0.3 percent rise in October.

Housing

Existing-Home Sales

Existing-home sales edged up in December, sales for all of 2013 were the highest since 2006, and median prices maintained strong growth, 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 1.0 percent to a seasonally adjusted annual rate of 4.87 million in December from a downwardly revised 4.82 million in November, but was 0.6 percent below the 4.90 million-unit level in December 2012.

Single-family home sales rose 1.9 percent to a seasonally adjusted annual rate of 4.30 million in December from 4.22 million in November, but were 0.7 percent below the 4.33 million-unit pace in December 2012. The median existing single-family home price was $197,900 in December, up 9.8 percent from a year ago.

For all of 2013, there were 5.09 million sales, which was 9.1 percent higher than 2012. It was the strongest performance since 2006 when sales reached an unsustainably high 6.48 million at the close of the housing boom.

Lawrence Yun, NAR chief economist, said housing has experienced a healthy recovery over the past two years. "Existing-home sales have risen nearly 20 percent since 2011, with job growth, record low mortgage interest rates and a large pent-up demand driving the market," he said. "We lost some momentum toward the end of 2013 from disappointing job growth and limited inventory, but we ended with a year that was close to normal given the size of our population."

The national median existing-home price for all of 2013 was $197,100, which was 11.5 percent above the 2012 median of $176,800, and was the strongest gain since 2005 when it rose 12.4 percent.

Total housing inventory at the end of December fell 9.3 percent to 1.86 million existing homes available for sale, which represents a 4.6-month supply at the current sales pace, down from 5.1 months in November. Unsold inventory is 1.6 percent above a year ago, when there was a 4.5-month supply.

Regional

Regionally, existing-home sales in the Northeast slipped 1.5 percent to an annual rate of 640,000 in December, but were 3.2 percent higher than December 2012. The median price in the Northeast was $239,300, up 3.6 percent from a year ago.

Existing-home sales in the Midwest fell 4.3 percent in December to a pace of 1.11 million, and were 0.9 percent below a year ago. The median price in the Midwest was $150,700, which was 7.0 percent higher than December 2012.

In the South, existing-home sales increased 3.0 percent to an annual level of 2.03 million in December, and were 4.6 percent above December 2012. The median price in the South was $173,200, up 8.9 percent from a year ago.

Existing-home sales in the West rose 4.8 percent to a pace of 1.09 million in December, but were 10.7 percent below a year ago. Inventory is tightest in the West, which is holding down sales in many markets, and multiple bidding is causing it to experience the strongest price gains in the U.S. The median price in the West was $285,000, up 16.0 percent from December 2012.

New Residential Sales

The U.S. Census Bureau and the Department of Housing and Urban Development jointly announced that sales of new single-family houses in December 2013 were at a seasonally adjusted annual rate of 414,000. This was 7.0 percent below the revised November rate of 445,000, but was 4.5 percent above the December 2012 estimate of 396,000.

The median sales price of new houses sold in December 2013 was $270,200; the average sales price was $311,400. The seasonally adjusted estimate of new houses for sale at the end of December was 171,000. This represents a supply of 5.0 months at the current sales rate.

An estimated 428,000 new homes were sold in 2013. This was 16.4 percent above the 2012 figure of 368,000. New house sales for December 2013 compared to December 2012 were up 25.0 percent in the Midwest, 4.1 percent in the South, 5.1 percent in the West, but were down 27.6 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 999,000. This was 9.8 percent below the revised November estimate of 1,107,000, but was 1.6 percent above the December 2012 rate of 983,000.

Single-family housing starts in December were at a rate of 667,000; this was 7.0 percent below the revised November figure of 717,000. An estimated 923,400 housing units were started in 2013. This was 18.3 percent above the 2012 figure of 780,600. New single-family starts in December 2013 versus December 2012 were up 9.3 percent in the Midwest; 13.4 percent in the South, but were down 9.1 percent in the Northeast and down 0.7 percent in the West.

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 $431.9 billion, an increase of 0.2 percent from the previous month, and 4.1 percent above December 2012. Total sales for the 12 months of 2013 were up 4.2 percent from 2012. Total sales for the October through December 2013 period were up 1.0 percent from the same period a year ago.

Retail trade sales were up 0.2 percent from November 2013, and 4.0 percent above last year. Nonstore retailers were up 9.9 percent from December of 2012 and auto and other motor vehicle dealers were up 6.2 percent from last year.

Sales on an adjusted basis at furniture and home furnishings stores were down 0.4 percent from November, but were up 4.5 percent from December 2012 and were up 4.6 for all of 2013 versus 2012.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3 percent in December on a seasonally adjusted basis, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 1.5 percent before seasonal adjustment.

Advances in energy and shelter indexes were major factors in the increase in the seasonally adjusted all items index. The gasoline index rose 3.1 percent, and the fuel oil and electricity indexes also increased, resulting in a 2.1 percent increase in the energy index. The shelter index rose 0.2 percent in December. The indexes for apparel, tobacco, and personal care increased as well. These increases more than offset declines in the indexes for airline fares, for recreation, for household furnishings and operations, and for used cars and trucks, resulting in the index for all items less food and energy rising 0.1 percent.

The food index rose slightly in December, increasing 0.1 percent. The food at home index was unchanged for the third time in four months, as a sharp decline in the fruits and vegetables index offset other increases. The food index has not posted a monthly increase larger than 0.1 percent since June.

Employment

The unemployment rate declined from 7.0 percent to 6.7 percent in December, while total nonfarm payroll employment edged up (+74,000), according to the latest from the U.S. Bureau of Labor Statistics report. Employment rose in retail trade and wholesale trade but was down in information.

The number of unemployed persons declined by 490,000 to 10.4 million in December. Over the year, the number of unemployed persons and the unemployment rate were down by 1.9 million and 1.2 percentage points, respectively.

Durable Goods Orders and Factory Shipments

According to the U.S. Census Bureau News, new orders for manufactured durable goods in December decreased $10.3 billion or 4.3 percent to $229.3 billion. This decrease, down two of the last three months, followed a 2.6 percent November increase. Excluding transportation, new orders decreased 1.6 percent. Excluding defense, new orders decreased 3.7 percent.

Transportation equipment, also down two of the last three months, led the decrease, $7.7 billion or 9.5 percent to $73.1 billion. This was led by nondefense aircraft and parts, which decreased $3.8 billion.

Shipments of manufactured durable goods in December, down following four consecutive monthly increases, decreased $4.5 billion or 1.9 percent to $232.8 billion. This followed a 1.3 percent November increase.

Transportation equipment, also down following four consecutive monthly increases, led the decrease, $4.1 billion or 5.7 percent to $68.3 billion.

According to this report, new orders for furniture and related products were up 9 percent over November 2012 and up 4 percent year-to-date. Shipments for the month were up 6.4 percent and up 4.2 percent year-to-date.

Executive Summary

The results of our recent survey of residential furniture manufacturers and distributors continued to indicate good news with new orders up 10 percent in November 2013 compared to November 2012. Some 77 percent of the participants reported increased orders for the month.

Some of this increase may have been Market timing as the High Point Market was late in October, but combining the two months we saw about a 7.5 percent increase.

Year-to-date, new orders were up 6 percent over the first eleven months of 2012. Some 80 percent of the participants are showing increased orders for 2013.

Shipments were up 10 percent over November 2012 and up 7 percent over October. Year-to-date, shipments were 5 percent higher than a year ago. Approximately 68 percent of the participants reported increased shipments, the same percent as reported last month. Backlogs were up 13 percent, up from 11 percent reported last month.

Receivable levels were 5 percent higher than a year ago, very much in line with year-to-date shipments. Inventories remained 3 percent higher than last year. Overall, we feel very good about receivable and inventory levels compared to current business conditions.

Factory and warehouse employees were 3 percent higher than last year but flat with October. Payrolls were 15 percent higher than last year, and have been up double digits for a few months now.

Overall, the results, considering Market dates, were pretty much in line with our expectations through November. We expect December results to continue to be positive but we are concerned with street talk about the beginning of 2014. Many of the people we have talked with indicate in some people's words, "somebody cut the faucet off in January." While that thought is not across the board, we have heard it from enough folks that it causes concern.

We expect that winter weather has been a factor and certainly this past week even weather in the South has affected shopping. For sure, many people just felt lucky to get home.

Most of the economic news has remained positive, except of course whether you believe the Affordable Care Act news is positive or negative. The GDP early results look good and consumer confidence is moving in the right direction.

While the housing news was not as positive as it has been with percentage gains, we need to keep in mind that it is hard to continue double digit gains year after year. So to be relatively flat at decent levels is not a bad thing. That is until you graph it back for the last 20 years and remember where the peaks were 10 years ago. Still housing gains has got to help the industry over the next several months.

It's amazing the people are holding back due to higher mortgage rates of 4 plus percent. How quickly some forget or never knew how good 7.5 percent could be. But we also need inventories, especially new homes, to improve.

Retail news was decent and inflation seems relatively stable. The stock market is playing with us a bit as any news out of Washington seems to make the market nervous.

But early reports from Vegas sound promising, at least from an attendance point of view (this is purely hearsay as we have not heard official results and were not able to attend).

Overall, we continue to believe that 2014, barring unforeseen major events, should be a decent year for the industry as we fight the way back to levels of the mid 2000's. With all the deflation we have had, it could be we might be about there with pieces.

Let's hope the somewhat slow start we have heard about in January does not carry over into the rest of the year.

Estimated Business Activity (Millions of Dollars)						
	2013			2012		
	November	October	11 Months	November	October	11 Months
New Orders	1,969	1,948	21,434	1,798	1,849	20,220
Shipments	2,003	1,880	21,180	1,821	1,774	20,185
Backlog (R)	2,075	2,100		1,844	1,867	

Key Monthly Indicators			
	November 2013 From October 2013 Percent Change	November 2013 From November 2012 Percent Change	11 Months 2013 Versus 11 Months 2012 Percent Change
New Orders	+1	+10	+6
Shipments	+7	+10	+5
Backlog	-1	+13	
Payrolls	-3	+15	+9
Employees	–	+3	
Receivables	–	+5	
Inventories	-1	+3	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2012				
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
July	+13	+9	+9	+2
August	+9	+3	+17	+2
September	+4	+11	+14	+3
October	+5	+9	+11	+4
November	+10	+10	+13	+3