

# Furniture Insights®

## Monthly Results

### New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in May 2014 increased 3 percent over orders in May 2013, following a 13 percent increase reported last month. As we noted last month, new orders results were likely skewed due to the timing of the April Market with the 2014 Market in early April and the 2013 happening in late April. Combined for the two months, orders increased almost 8 percent.

Some 53 percent of the participants reported increased orders for May over May 2013, down from 77 percent reporting increases last month. We do believe Market dates caused some fluctuation for the 2 months individually.

Year-to-date, new orders remained 5 percent ahead of the same period a year ago. Approximately 60 percent of our participants have reported increased orders, about the same percentage as reported last month.

### Shipments and Backlogs

Shipments in May 2014 were 5 percent higher than May 2013 and up 3 percent over April 2014. Approximately 61 percent of the participants reported increased shipments over May 2013, down from 85 percent last month. With orders up year-to-date for participants some 60 percent, it would make sense that shipments would not continue up for that many participants.



Year-to-date, shipments remained 6 percent higher than the same period a year ago. Shipments were up for approximately 67 percent of the participants, up slightly from 65 percent reported last month.

Backlogs remained 13 percent ahead of last May dropping 1 percent from April, but remained at pretty strong levels.

## Furniture Insights®

A Monthly Newsletter

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### **Receivables and Inventories**

Receivable levels were up 9 percent over May 2013 and up 2 percent from April. The increase from April was in line with increase in shipments, but the 9 percent increase over last year seemed a bit high. But last month, shipments were up 12 percent over the prior year and receivables up 14 percent. So while a little high, they do not appear too much out of line.

Inventories increased 2 percent over April, making inventory levels 7 percent higher than May 2013. While maybe a bit high, they do not appear too far out of line based on current order and shipment rates.

### **Factory and Warehouse Employees and Payrolls**

The number of factory and warehouse employees held steady with previous months, reflecting a 5 percent increase. This increase appears in line with current business conditions.

Factory and warehouse payrolls increased 2 percent over May 2013 but fell 1 percent from April. Factory and warehouse payrolls year-to-date were 6 percent higher than last year-to-date, down slightly from 7 percent reported last month. As with employees, factory and warehouse payrolls seem pretty much in line for most participants.

## **National**

### **Consumer Confidence**

The Conference Board Consumer Confidence Index®, which had improved in June, increased in July. The Index now stands at 90.9 (1985=100), up from 86.4 in June. The Present Situation Index increased to 88.3 from 86.3, while the Expectations Index rose to 92.7 from 86.4 in June.

Lynn Franco, Director of Economic Indicators at The Conference Board said: “Consumer confidence increased for the third consecutive month and is now at its highest level since October 2007 (95.2). Strong job growth helped boost consumers’ assessment of current conditions, while brighter short-term outlooks for the economy and jobs, and to a lesser extent personal income, drove the gain in expectations. Recent improvements in consumer confidence, in particular expectations, suggest the recent strengthening in growth is likely to continue into the second half of this year.”

Consumers’ assessment of current conditions improved in July. Those claiming business conditions are “good” edged down to 22.7 percent from 23.4 percent, while those stating business conditions are “bad” was virtually unchanged at 22.7 percent. Consumers’ appraisal of the job market was more favorable. Those saying jobs are “plentiful” increased to 15.9 percent from 14.6 percent, while those claiming jobs are “hard to get” remained unchanged at 30.7 percent.

Consumers’ expectations were more optimistic in July. The percentage of consumers expecting business conditions to improve over the next six months increased to 20.2 percent from 18.4 percent, while those expecting business conditions to worsen held steady at 11.5 percent. Consumers were more positive about the outlook for the labor market. Those anticipating more jobs in the months ahead increased to 19.1 percent from 16.3 percent, while those anticipating fewer jobs declined to 16.4 percent from 18.4 percent. Slightly more consumers expect their incomes to grow, 17.3 percent in July versus 16.7 percent in June, while

those expecting a drop in their incomes declined to 11.0 percent from 11.4 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 4.0 percent in the second quarter of 2014, according to the “advance” estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP decreased 2.1 percent (revised).

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

### **Leading Economic Indicators**

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.3 percent in June to 102.2 (2004=100), following a 0.7 percent increase in May, and a 0.3 percent increase in April.

“Broad-based increases in the LEI over the last six months signal an economy that is expanding in the near term and may even somewhat accelerate in the second half,” said Ataman Ozyildirim, Economist at The Conference Board. “Housing permits, the weakest indicator during this period, reflects some risk to this improving outlook. But favorable financial conditions, generally positive trends in the labor markets and the outlook for new orders in manufacturing have offset the housing market weakness over the past six months.”

“The CEI shows the pace of economic activity continued to expand moderately through June,” said Ken Goldstein, Economist at The Conference Board. “Stronger consumer demand driven by sustained jobs gains and improving confidence remains the main source of improvement for the U.S. economy. In addition to a stronger housing market, more business investment could also provide an upside to the overall economy.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2 percent in June to 109.2 (2004 = 100), following a 0.3 percent increase in May, and a 0.2 percent increase in April.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.5 percent in June to 124.4 (2004 = 100), following a 0.3 percent increase in May, and a 0.4 percent increase in April.

### **Housing**

#### **Existing-Home Sales**

Existing-home sales increased in June and reached an annual pace of 5 million sales for the first time since October 2013, while rising inventory continues to push overall supply towards a more balanced market, 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, climbed 2.6 percent to a seasonally adjusted annual rate of 5.04 million in June from an upwardly-revised 4.91 million in May. Sales are at the highest pace since October 2013 (5.13 million), but remain 2.3 percent below the 5.16 million-unit level a year ago.

Single-family home sales rose 2.5 percent to a seasonally adjusted annual rate of 4.43 million in June from 4.32 million in May, but remain 2.9 percent below the 4.56 million pace a year ago. The median existing single-family home price was \$224,300 in June, up 4.5 percent from June 2013.

Lawrence Yun, NAR chief economist, said housing fundamentals are moving in the right direction. “Inventories are at their highest level in over a year and price gains have slowed to much more welcoming levels in many parts of the country. This bodes well for rising home sales in the upcoming months as consumers are provided with more choices,” he said. “On the contrary, new home construction needs to rise by at least 50 percent for a complete return to a balanced market because supply shortages – particularly in the West – are still putting upward pressure on prices.”

Yun also noted that stagnant wage growth is holding back what should be a stronger pace of sales. “Hiring has been a bright spot in the economy this year, adding an average of 230,000 jobs each month,” he said. “However, the lack of wage increases is leaving a large pool of potential homebuyers on the sidelines who otherwise would be taking advantage of low interest rates. Income growth below price appreciation will hurt affordability.”

Total housing inventory at the end of June rose 2.2 percent to 2.30 million existing homes available for sale, which represents a 5.5-month supply at the current sales pace, unchanged from May. Unsold inventory is 6.5 percent higher than a year ago, when there were 2.16 million existing homes available for sale.

The median existing-home price for all housing types in June was \$223,300, which was 4.3 percent above June 2013.

This marks the 28<sup>th</sup> consecutive month of year-over-year price gains.

The percent share of first-time buyers continues to underperform historically, rising slightly to 28 percent in June (27 percent in May), but remain at an overall average of 28 percent over the past year.

NAR President Steve Brown, co-owner of Irongate, Inc., Realtors® in Dayton, Ohio, said Realtors® are reporting that some prospective buyers who have above average credit scores but low down payments are deterred from homeownership by the high cost of FHA mortgage insurance. “Access to affordable credit continues to hamper young, prospective first-time buyers,” added Brown. “NAR recommends that FHA reduce high annual mortgage insurance premiums for all qualified homebuyers and eliminate the insurance requirement for the life of the loan. FHA’s HAWK program is a good start, but it should offer further reductions for participating home buyers.”

### **Regional**

Regionally, existing-home sales in the Northeast rose 3.2 percent to an annual rate of 640,000 in June, but were 3.0 percent below a year ago. The median price in the Northeast was \$269,800, slightly below (0.1 percent) June 2013.

In the Midwest, existing-home sales jumped 6.2 percent to an annual rate of 1.20 million in June, but remain 2.4 percent below June 2013. The median price in the Midwest was \$177,900, up 4.6 percent from a year ago.

Existing-home sales in the South inched 0.5 percent higher to an annual level of 2.06 million in June, and were up 1.0 percent from June 2013. The median price in the South was \$192,600, up 3.4 percent from a year ago.

Existing-home sales in the West rose 2.7 percent to an annual rate of 1.14 million in June, but remain 7.3 percent below a year ago. The median price in the West was \$301,000, which was 7.2 percent above June 2013.

### **New Residential Sales**

Sales of new single-family houses in June 2014 were at a seasonally adjusted annual rate of 406,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 8.1 percent below the revised May rate of 442,000 and was 11.5 percent below the June 2013 estimate of 459,000.

The median sales price of new houses sold in June 2014 was \$273,500; the average sales price was \$331,400. The seasonally adjusted estimate of new houses for sale at the end of June was 197,000. This represents a supply of 5.8 months at the current sales rate.

Sales of new houses in June 2014 versus June 2013 were down 27.3 percent in the Northeast, 17.4 percent in the South, and 9.4 percent in the West, but were up 19.6 percent in the Midwest.

### **Housing Starts**

According to the U.S. Census Bureau and the Department of Housing and Urban Development, privately-owned housing starts in June were at a seasonally adjusted annual rate of 893,000. This was 9.3 percent below the revised May estimate of 985,000, but was 7.5 percent above the June 2013 rate of 831,000.

Single-family housing starts in June were at a rate of 575,000; this was 9.0 percent below the revised May figure of 632,000. Comparing June 2014 to June 2013, starts were up 2 percent in the Northeast, and up 30.3 percent in the

Midwest, but down 14.5 percent in the South and 5.1 percent in the West.

### **Retail Sales**

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for June, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$439.9 billion, an increase of 0.2 percent from the previous month, and 4.3 percent above June 2013. Total sales for the April through June 2014 period were up 4.5 percent from the same period a year ago.

Retail trade sales were up 0.3 percent from May 2014, and 4.1 percent above last year. Nonstore retailers were up 8.1 percent from June 2013 and health and personal care stores were up 7.9 percent from last year.

On an adjusted basis, sales at furniture and home furnishings stores were basically flat with May but were 2.5 percent over June 2013. Sales were up at these stores 2.9 percent year-to-date.

### **Consumer Prices**

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3 percent in June on a seasonally adjusted basis, according to the report issued by the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index increased 2.1 percent before seasonal adjustment.

In contrast to the broad-based increase last month, the June seasonally adjusted increase in the all items index was primarily driven by the gasoline index. It rose 3.3 percent and accounted for two-thirds of the all items increase. Other energy indexes were mixed, with the electricity index rising, but the indexes for natural gas and fuel oil declining. The food index decelerated in June, rising only

slightly, with the food at home index flat after recent increases.

The index for all items less food and energy also decelerated in June, increasing 0.1 percent after a 0.3 percent increase in May. The indexes for shelter, apparel, medical care, and tobacco all increased in June, and the index for household furnishings and operations rose for the first time in a year. However, the index for new vehicles declined after recent increases, and the index for used cars and trucks also fell.

### **Employment**

Total nonfarm payroll employment increased by 288,000 in June, and the unemployment rate declined to 6.1 percent, according to the U.S. Bureau of Labor Statistics. Job gains were widespread, led by employment growth in professional and business services, retail trade, food services and drinking places, and health care.

In June, the unemployment rate declined by 0.2 percentage point to 6.1 percent. The number of unemployed persons decreased by 325,000 to 9.5 million. Over the year, the unemployment rate and the number of unemployed persons have declined by 1.4 percentage points and 2.3 million, respectively.

### **Durable Goods Orders and Factory Shipments**

According to the U.S. Census Bureau, new orders for manufactured durable goods in June increased \$1.8 billion or 0.7 percent to \$239.9 billion. This increase, up four of the last five months, followed a 1.0 percent May decrease. Excluding transportation, new orders increased 0.8 percent. Excluding defense, new orders increased 0.7 percent.

Shipments of manufactured durable goods in June, up four of the last five months, increased \$0.3 billion or 0.1 percent to \$238.2 billion. This followed a 0.1 percent May decrease.

According to the full report, shipments for furniture and related products increased 1 percent over April and were flat with May 2013, showing a 1.8 percent increase in shipments through May for the year. New orders were relatively stable compared to both periods.



### **Executive Summary**

New orders for our residential furniture manufacturers and distributors increased 3 percent over May 2013, down from a 13 percent increase reported last month. As we discussed last month, we suspected that the timing of the April Market had impacted the large increase in orders, since market was early April in 2014 and late April 2013. We definitely think that had an impact on the results. If we look at both months together, we see almost an 8 percent increase for the 2 months.

Orders were up for approximately 53 percent of the participants, down from 77 percent reporting last month. The May results left year-to-date new orders up 5 percent over the same period a year ago with 60 percent of the participants reporting increased orders year-to-date.

Shipments were up 5 percent over May 2013 and up 3 percent over April. Some 61 percent of the participants reported increases. Year-to-date, shipments remained 6 percent higher than the same period a year ago with 67 percent of the participants reporting increases.

Receivables were up 9 percent over last year compared to only a 5 percent increase in shipments. Last month receivables were up 14 percent over a 12 percent increase in shipments, so we are hoping this is not a trend but a timing issue.

Inventories increased 2 percent from the month and were up 7 percent for May over May comparisons, but seem in line with current business conditions.

Factory and warehouse employees and payrolls also appeared to be in line for the most part.

Looking at the National picture, for the most part, the sun, moon and stars are pretty much in alignment for some continued good business conditions – maybe not great, but at least good.

Consumer confidence has rebounded rather nicely over the last few months. The estimated 4 percent GDP growth certainly was positive after the poor first quarter and the leading economic indicators continue a positive streak.

While housing growth has slowed somewhat, this part of the economy still seems somewhat healthy. We need more new houses to be built to keep inventories at good levels, but overall housing seems to be helping.

Retail sales overall continue to be positive with vehicle sales leading the way, which is typically a good thing for the economy as a whole. Inflation still remains reasonable with gas prices actually declining in spite of the issues in the Middle East.

New jobs continue to improve mostly above the 200,000 level per month. Unemployment dropped to 6.1 percent. The concern with employment continues to be the number of under employed, as well as those who have quit looking and, therefore, dropped from the unemployed numbers.

Still, the picture for the residential furniture business should remain on a positive course. Most everyone we talk to says business is ok to good with some even better than good. We hear some especially in the upholstery world are continuing to have problems finding qualified people.

We hope the rest of the summer is a good one for all.

Estimated Business Activity (Millions of Dollars)						
	2014			2013		
	May	April	5 Months	May	April	5 Months
New Orders	2,069	2,035	10,187	2,013	1,794	9,715
Shipments	2,102	2,034	10,052	1,995	1,816	9,499
Backlog (R)	2,026	2,056		1,830	1,819	

Key Monthly Indicators			
	May 2014 From April 2014 Percent Change	May 2014 From May 2013 Percent Change	5 Months 2014 Versus 5 Months 2013 Percent Change
New Orders	+2	+3	+5
Shipments	+3	+5	+6
Backlog	-1	+13	
Payrolls	-1	+2	+6
Employees	+1	+5	
Receivables	+2	+9	
Inventories	+2	+7	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
<b>2013</b>				
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
December	+5	+4	+14	+4
<b>2014</b>				
January	+2	+3	+15	+5
February	-2	-2	+14	+5
March	+9	+10	+14	+5
April	+13	+12	+13	+5
May	+3	+5	+13	+5