

Furniture Insights®

Monthly Results

New Orders

New orders in April 2014 were up 13 percent over April 2013, according to our latest survey of residential furniture manufacturers and distributors. We expect that some of this large increase is due to the fact that the High Point April Market was early in 2014 (starting April 5) versus a late market in 2013 (starting April 20). With market starting early in the month, there is more time to record after market orders in April. We will see if this affects May order rates. Approximately 77 percent of our participants reported increased orders in April, up from 62 percent in March.

Year-to-date, with the increase in April, new orders were up 5 percent compared to the first four months of 2013. Remember that through February, orders were flat so March and April have rebounded very well. Through April, orders were up for approximately 60 percent of our participants, up from about 50 percent reported last month.

Shipments and Backlogs

Shipments in April 2014 were up 12 percent over April 2013 but were down 8 percent from March. Shipments were up for almost 85 percent of our participants, up from about 80 percent reported last month.

Year-to-date, shipments were up 6 percent over the same period a year ago – up from 4 percent reported last month. Approximately 65 percent of the participants reported increased shipments, up from about 60 percent last month.



Backlogs remained strong – up 13 percent from April 2013 and stayed even with March levels.

Receivables and Inventories

Receivable levels were up 14 percent over April 2013, somewhat in line with the 12 percent increase in shipments. Receivables were up 2 percent over March even though shipments were down. We expect this is a timing issue but we will watch next month.

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

Material discussed is meant to provide general information and should not be acted on without obtaining professional advice appropriately tailored to your individual needs. Furniture Insights® is a registered trademark of Smith Leonard PLLC.

Since receivable levels have been in line for some time now, we do not expect this to be an issue.

Inventories were 4 percent higher than April 2013 but down 1 percent from March. Inventory levels continue to be in line with current business conditions.

Factory and Warehouse Employees and Payrolls

The number of factory and warehouse employees held steady with March 2014 and were up 5 percent over April 2013. This increase has been consistent through all of 2014 with every month showing a 5 percent increase.

Factory and warehouse payrolls were up 6 percent over last April down from 11 percent reported last month. Year-to-date, these payrolls were up 7 percent – down from 8 percent reported last month. The 7 percent increase seems to be more in line with current business conditions.

National

Consumer Confidence

The Conference Board Consumer Confidence Index®, which had increased in May, improved again in June. The Index now stands at 85.2 (1985=100), up from 82.2 in May. The Present Situation Index increased to 85.1 from 80.3, while the Expectations Index rose to 85.2 from 83.5 in May.

Lynn Franco, Director of Economic Indicators at The Conference Board said: “Consumer confidence continues to advance and the index is now at its highest level since January 2008 (87.3). June’s increase was driven primarily by improving current conditions, particularly consumers’ assessment of business conditions. Expectations regarding the short-term outlook for the economy and

jobs were moderately more favorable, while income expectations were a bit mixed. Still, the momentum going forward remains quite positive.”

Consumers’ appraisal of current conditions improved in June. Those claiming business conditions are “good” increased to 23.0 percent from 21.1 percent, while those stating business conditions are “bad” decreased to 22.8 percent from 24.6 percent. Consumers’ assessment of the job market was also more favorable. Those stating jobs are “plentiful” edged up to 14.7 percent from 14.2 percent, while those claiming jobs are “hard to get” declined to 31.8 percent from 32.2 percent.

Consumers’ expectations were generally more positive in June. The percentage of consumers expecting business conditions to improve over the next six months increased to 18.8 percent from 17.7 percent. However, those expecting business conditions to worsen increased to 11.4 percent from 10.7 percent.

Consumers were more positive about the outlook for the labor market. Those anticipating more jobs in the months ahead increased to 16.3 percent from 15.2 percent, while those anticipating fewer jobs edged down to 18.7 percent from 18.9 percent. Fewer consumers expect their incomes to grow, 15.9 percent versus 18.0 percent, but those expecting a drop in their incomes also declined, to 12.1 percent from 14.5 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 2.9 percent in the first quarter of 2014, according to the “third” estimate released

by the Bureau of Economic Analysis. In the fourth quarter of 2013, real GDP increased 2.6 percent.

The GDP estimate released is based on more complete source data than were available for the “second” estimate issued last month. In the second estimate, real GDP was estimated to have decreased 1.0 percent. With the third estimate for the first quarter, the increase in personal consumption expenditures (PCE) was smaller than previously estimated, and the decline in exports was larger than previously estimated.

The decrease in real GDP in the first quarter primarily reflected negative contributions from private inventory investment, exports, state and local government spending, nonresidential fixed investment, and residential fixed investment that were partly offset by a positive contribution from PCE. 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 0.5 percent in May to 101.7 (2004=100), following a 0.3 percent increase in April, and a 1.0 percent increase in March.

“May’s increase in the LEI, the fourth consecutive one, was broad based,” said Ataman Ozyildirim, Economist at The Conference Board. “Housing permits held the index back slightly but the LEI still points to an expanding economy and its pace may even pick up in the second half of the year.”

“Recent data suggest the economy is finally moving up from a 2 percent growth trend to a more robust expansion,” said Ken Goldstein, Economist at The Conference Board. “The CEI shows the pace of economic activity continued to

gain traction in May, while the trend in the LEI remains positive. Going forward, the biggest challenge is to sustain the rise in income growth which will drive consumption.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.3 percent in May to 109.0 (2004 = 100), following a 0.2 percent increase in April, and a 0.4 percent increase in March.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.4 percent in May to 123.8 (2004 = 100), following a 0.3 percent increase in April, and a 0.6 percent increase in March.

Housing

Existing-Home Sales

Existing-home sales rose strongly in May and inventory gains continued to help moderate price growth, according to the National Association of Realtors® (NAR). All four regions of the country experienced sales gains compared to a month earlier.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, rose 4.9 percent to a seasonally adjusted annual rate of 4.89 million in May from an upwardly-revised 4.66 million in April, but remain 5.0 percent below the 5.15 million-unit level in May 2013. The 4.9 percent month-over-month gain in May was the highest monthly rise since August 2011 (5.5 percent).

Single-family home sales rose 5.7 percent to a seasonally adjusted annual rate of 4.30 million in May from 4.07 million in April, but remain 5.7 percent below the 4.56 million pace a year ago. The median existing single-family home

price was \$213,600 in May, up 4.9 percent from May 2013.

Lawrence Yun, NAR chief economist, said current sales activity is rebounding after the lackluster first quarter. "Home buyers are benefiting from slower price growth due to the much-needed, rising inventory levels seen since the beginning of the year," he said. "Moreover, sales were helped by the improving job market and the temporary but slight decline in mortgage rates."

Total housing inventory at the end of May climbed 2.2 percent to 2.28 million existing homes available for sale, which represents a 5.6-month supply at the current sales pace, down slightly from 5.7 months in April. Unsold inventory is 6.0 percent higher than a year ago, when there were 2.15 million existing homes available for sale.

The median existing-home price for all housing types in May was \$213,400, which was 5.1 percent above May 2013. "Rising inventory bodes well for slower price growth and greater affordability, but the amount of homes for sale is still modestly below a balanced market. Therefore, new home construction is still needed to keep prices and housing supply healthy in the long run," Yun added.

According to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage dropped to 4.19 percent in May from 4.34 percent in April, and is the lowest since June 2013 (4.07 percent).

Regional

Regionally, existing-home sales in the Northeast rose 3.3 percent to an annual rate of 620,000 in May, but were 3.1 percent below a year ago. The median price in the Northeast was \$256,700, down 0.9 percent from May 2013.

In the Midwest, existing-home sales jumped 8.7 percent to an annual rate of 1.13 million in May, but were still 7.4 percent below May 2013. The median price in the Midwest was \$165,900, up 4.0 percent from a year ago.

Existing-home sales in the South increased 5.7 percent to an annual level of 2.05 million in May, but were down 0.5 percent from May 2013. The median price in the South was \$184,800, up 4.4 percent from a year ago.

Existing-home sales in the West rose 0.9 percent to an annual rate of 1.09 million in May, and were 11.4 percent below a year ago. The median price in the West was \$297,500, which was 8.4 percent above May 2013.

New Residential Sales

Sales of new single-family houses in May 2014 were at a seasonally adjusted annual rate of 504,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 18.6 percent above the revised April rate of 425,000 and was 16.9 percent above the May 2013 estimate of 431,000.

The median sales price of new houses sold in May 2014 was \$282,000; the average sales price was \$319,200. The seasonally adjusted estimate of new houses for sale at the end of May was 189,000. This represents a supply of 4.5 months at the current sales rate.

New house sales were up 36.0 percent in the Northeast, 5.7 percent in the Midwest, 11.8 percent in the South and 32.7 percent in the West compared to May 2013.

Housing Starts

According to the U.S. Census Bureau and the Department of Housing and Urban Development, privately-owned housing starts in May were at a seasonally adjusted annual rate of 1,001,000. This was 6.5 percent below the revised April estimate of 1,071,000, but was 9.4 percent above the May 2013 rate of 915,000.

Single-family housing starts in May were at a rate of 625,000; this was 5.9 percent below the revised April figure of 664,000. Single-family housing starts in May 2014 compared to May 2013 were up in the Northeast (6.3 percent), Midwest (13.0 percent) and South (4.8 percent), but down in the West (2.4 percent).

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for May, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$437.6 billion, an increase of 0.3 percent from the previous month, and 4.3 percent above May 2013. Total sales for the March 2014 through May 2014 period were up 4.3 percent from the same period a year ago.

Retail trade sales were up 0.4 percent from April 2014, and 4.3 percent above last year. Auto and other motor vehicle dealers were up 11.1 percent from May 2013 and nonstore retailers were up 7.4 percent from last year.

Sales on an adjusted basis at furniture and home furnishings stores were up 6.5 percent from May of 2013 and up 0.5 percent from April 2014. Year-to-date, sales at these stores were up 3.5 percent.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4 percent in May 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.

The seasonally adjusted increase in the all items index, which was the largest since February 2013, was broad-based. The indexes for shelter, electricity, food, airline fares, and gasoline were among those that contributed. The food index posted its largest increase since August 2011, with the index for food at home rising 0.7 percent. The increases in the electricity and gasoline indexes led to a 0.9 percent rise in the energy index.

The index for all items less food and energy rose 0.3 percent in May, its largest increase since August 2011. Along with the indexes for shelter and airline fares, the medical care, apparel, and new vehicle indexes all increased in May. The indexes for household furnishings and used cars and trucks declined.

The all items index increased 2.1 percent over the last 12 months; this compares to a 2.0 percent increase for the 12 months ending April, and is the largest 12-month increase since October 2012. The index for all items less food and energy has increased 2.0 percent over the last 12 months. The food index has advanced 2.5 percent over the span, its largest 12-month increase since June 2012.

Employment

Total nonfarm payroll employment rose by 217,000 in May, and the unemployment rate was unchanged at 6.3 percent, according to the U.S. Bureau of Labor Statistics. Employment increased in professional and business services, health care and social assistance, food services and drinking places, and transportation and warehousing.

The unemployment rate held at 6.3 percent in May, following a decline of 0.4 percentage point in April. The number of unemployed persons was unchanged in May at 9.8 million. Over the year, the unemployment rate and the number of unemployed persons declined by 1.2 percentage points and 1.9 million, respectively.

Durable Goods Orders and Factory Shipments

According to the U.S. Census Bureau, new orders for manufactured durable goods in May decreased \$2.4 billion or 1.0 percent to \$238.0 billion. This decrease, down following three consecutive monthly increases, followed a 0.8 percent April increase. Excluding transportation, new orders decreased 0.1 percent. Excluding defense, new orders increased 0.6 percent.

Transportation equipment, also down following three consecutive monthly increases, led the decrease, at 3.0 percent.

Shipments of manufactured durable goods in May, up four consecutive months, increased \$0.6 billion or 0.3 percent to \$238.6 billion. This was at the highest level since the series was first published on a NAICS basis in 1992 and followed a slight April increase.

According to these reports, shipments of furniture and related products were 2.2 percent higher in April 2014 versus April 2013 and were up 2.3 percent year-to-date. Orders were 1.3 percent over April 2013 and up 3.0 percent year-to-date.



Executive Summary

The results of our most recent survey continued to point to better overall business conditions for the residential furniture market.

New orders were up 13 percent comparing April 2014 to April 2013 after a 9 percent increase reported in March. Year-to-date, new orders were up 5 percent – up from 3 percent reported in March.

We think some of the 13 percent increase was probably the result of an early High Point Market, which started on April 5 in 2014 versus an April 20 start date in 2013. Since most market orders are now written sometime after market is over, an early start date allows more orders to be written in the same month. We will see when we get the May results.

Shipments were also up very nicely, increasing 12 percent over April 2013. Shipments were also up 6 percent year-to-date. While increases in orders are great, increased shipments are even better as that means conversion to cash happens more quickly.

So far this year, year-to-date orders were up for some 60 percent of our participants (up from 50 percent reported last month). Year-to-date, shipments were up for approximately 65 percent of our participants (up from 60 percent reported last month).

For the month of April, new orders were up for 77 percent of the participants and shipments were up for almost 85 percent.

Receivables were up 14 percent – higher than the increase in shipments, but we believe that was probably a timing issue. Inventories were up 4 percent over

last April, clearly in line with current business conditions.

The number of factory and warehouse employees was up 5 percent over last year, consistent with the results of all 4 months of 2014. Payrolls were up 6 percent for April versus April 2013 and up 7 percent year-to-date. Both of these indicators seem to be in line with current business.

Based on most of our conversations, business is clearly better for most in the industry. The one drawback we hear from many is that there is still some lack of consistency.

The national report on retail sales was also positive for furniture and home furnishings stores where sales were up 6.5 percent in May over May 2013.

Existing home sales were up the highest percentage month over month increase since August 2011. Overall housing including existing home, new homes and housing starts are all very positive.

Inflation is showing a little more increase, with most categories posting increases.

The GDP in the first quarter based on third estimates was very poor, posting a 2.9 percent decrease. But from all we hear and read, the rest of the year should be significantly better.

The best news this month was the increase in consumer confidence. The survey showed the highest index since January 2008. This certainly bodes well for the furniture industry as we all pretty much agree that, no matter what the other factors are showing, we have to have good consumer confidence for business to be good.

We continue to believe that upholstery business is performing better than case goods, but we also were encouraged by some case goods folks saying that business for these goods picked up at market. We

think the housing market improvements should help at case goods business over time.

One of the other things we are hearing in the upholstery side of the business is the lack of labor. This has been especially true in both North Carolina and Mississippi.

Now that the cold and bad weather are behind us, hopefully business can continue to improve. We really do not see any reason for it not to. Hopefully, hurricane and tornado season will be kind to all of us.



Estimated Business Activity (Millions of Dollars)						
	2014			2013		
	April	March	4 Months	April	March	4 Months
New Orders	2,035	2,263	8,118	1,794	2,085	7,702
Shipments	2,034	2,259	7,950	1,816	2,054	7,504
Backlog (R)	2,056	2,055		1,819	1,841	

Key Monthly Indicators			
	April 2014 From March 2014 Percent Change	April 2014 From April 2013 Percent Change	4 Months 2014 Versus 4 Months 2013 Percent Change
New Orders	-8	+13	+5
Shipments	-8	+12	+6
Backlog	-	+13	
Payrolls	-7	+6	+7
Employees	-	+5	
Receivables	+2	+14	
Inventories	-1	+4	

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