

Furniture Insights®

Monthly Results

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in January 2014 were 2 percent higher than January 2013 and up 8 percent over December (remembering December is a short month with the Holidays). This was about what was expected as most we talked with noted some slower growth in January. New orders in January 2013 were 7 percent higher than January 2012 so at least the 2 percent increase was comparing to a decent growth month in 2013.

For January, basically one-half the participants reported increased orders for the month.

Shipments and Backlogs

Shipments in January were 3 percent higher than January 2013, but off 4 percent from December. Shipments in January 2013 were 10 percent higher than January 2012 so, as with orders, the January 2014 comparison was to a good month in 2013.

For January, some 58 percent of the participants reported increased shipments. But, as it has been for some time, the reported increases and decreases on a monthly basis are pretty much all over the map, with some up double digits and others off the same.



Backlogs were up 15 percent over January 2013, up from a 14 percent increase reported last month and were up 1 percent over December. Backlogs have been up double digits since August 2013.

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.

Receivables and Inventories

Receivables were up 6 percent in January over January 2013 compared to a 3 percent increase in shipments. Receivables were flat with December even though shipments were down 4 percent. Hopefully this is just a timing issue as receivables have continued to be in good shape over the last several months.

Inventories were up 3 percent over January 2013 and 4 percent over December. The 3 percent increase over last year was the same increase we reported last month. We continue to believe that, based on current business, inventories are in good shape overall.

Factory and Warehouse Employees and Payrolls

The number of factory and warehouse employees was up 5 percent over January 2013 and up 1 percent from December. This increase has slowly climbed from a 2 percent increase in July to this 5 percent increase.

Factory and warehouse payrolls were up 13 percent over January 2013, after rising 9 percent over all of 2013. While December payrolls were up only 6 percent, payrolls for several months prior to December were up double digits compared to the same month a year earlier.

National

Consumer Confidence

The Conference Board Consumer Confidence Index®, which had decreased in February, improved in March. The Index now stands at 82.3 (1985=100), up from 78.3 in February. The Present Situation Index edged down to 80.4 from 81.0, while the Expectations Index increased to 83.5 from 76.5.

“Consumer confidence improved in March, as expectations for the short-term outlook bounced back from February’s decline,” said Lynn Franco, Director of Economic Indicators at The Conference Board. “While consumers were moderately more upbeat about future job prospects and the overall economy, they were less optimistic about income growth. The Present Situation index, which has been on an upward trend for the past four months, was relatively unchanged in March. Overall, consumers expect the economy to continue improving and believe it may even pick up a little steam in the months ahead.”

Consumers’ assessment of current conditions was little changed in March. Those claiming business conditions are “good” increased to 22.9 percent from 21.2 percent; however, those claiming business conditions are “bad” also rose, to 23.2 percent from 22.0 percent. Consumers’ appraisal of the labor market was relatively unchanged. Those claiming jobs are “plentiful” decreased marginally to 13.1 percent from 13.4 percent, while those saying jobs are “hard to get” increased slightly to 33.0 percent from 32.4 percent.

Consumers’ expectations, which fell last month, rebounded in March. The percentage of consumers expecting business conditions to improve over the next six months increased to 18.1 percent from 17.3 percent, while those anticipating business conditions to worsen declined to 10.2 percent from 13.6 percent. Consumers’ outlook for the labor market was also moderately more optimistic.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.5 percent in February to 99.8 (2004=100), following a 0.1 percent increase in

January, and a 0.1 percent decline in December.

“The U.S. LEI increased sharply in February, suggesting that any weather-related volatility will be short lived and the economy should continue to improve into the second half of the year,” said Ataman Ozyildirim, Economist at The Conference Board. “The strengths and weaknesses in the LEI were balanced in February, with large increases in housing permits and the interest rate spread more than offsetting decreases in the workweek in manufacturing, consumer expectations and rising initial claims for unemployment insurance.”

“While the CEI shows the pace of economic activity remained slow at the start of 2014, the trend in the LEI remains quite positive,” said Ken Goldstein, Economist at The Conference Board. “The biggest challenge continues to be weak consumer demand, pinned down by weak wage growth. These conditions were still in evidence the first two months of the year, but will likely improve as spring arrives.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2 percent in February to 108.2 (2004 = 100), following a 0.1 percent increase in January, and no change in December.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.3 percent in February to 122.1 (2004 = 100), following a 0.5 percent increase in January, and a 0.4 percent increase in December.

Housing

Existing-Home Sales

Home prices continued to show solid growth in most of the country due to

limited inventory conditions, but rising prices and severe winter weather caused existing-home sales to slip in February, 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, declined 0.4 percent to a seasonally adjusted annual rate of 4.60 million in February from 4.62 million in January, and 7.1 percent below the 4.95 million-unit level in February 2013. February’s pace of sales was the lowest since July 2012, when it stood at 4.59 million.

Single-family home sales edged down 0.2 percent to a seasonally adjusted annual rate of 4.04 million in February from 4.05 million in January, and were 6.9 percent below the 4.34 million-unit level in February 2013. The median existing single-family home price was \$189,200 in February, up 9.0 percent from a year ago.

Lawrence Yun, NAR chief economist, said conditions in February were largely unchanged from January. “We had ongoing unusual weather disruptions across much of the country last month, with the continuing frictions of constrained inventory, restrictive mortgage lending standards and housing affordability less favorable than a year ago,” he said. “Some transactions are simply being delayed, so there should be some improvement in the months ahead. With an expected pickup in job creation, home sales should trend up modestly over the course of the year.”

The median existing-home price for all housing types in February was \$189,000, which was 9.1 percent above February 2013. “Price gains have translated into an additional \$4 trillion of housing wealth

recovery over the past three years,” Yun added.

Total housing inventory at the end of February rose 6.4 percent to 2.00 million existing homes available for sale, which represents a 5.2-month supply at the current sales pace, up from 4.9 months in January. Unsold inventory is 5.3 percent above a year ago, when there was a 4.6-month supply.

According to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage declined to 4.30 percent in February from 4.43 percent in January; the rate was 3.53 percent in February 2013.

Regional

Regionally, existing-home sales in the Northeast fell 11.3 percent to an annual rate of 550,000 in February, and were 12.7 percent below February 2013. The median price in the Northeast was \$237,800, up 1.5 percent from a year ago.

Existing-home sales in the Midwest declined 3.8 percent in February to a pace of 1.00 million, and were 12.3 percent below a year ago. The median price in the Midwest was \$140,900, which was 8.6 percent higher than February 2013.

In the South, existing-home sales rose 1.5 percent to an annual level of 1.98 million in February, but were 0.5 percent below February 2013. The median price in the South was \$163,400, up 8.3 percent from a year ago.

Existing-home sales in the West rose 5.9 percent to a pace of 1.07 million in February, but were 10.1 percent below a year ago. The median price in the West was \$279,400, up 18.0 percent from February 2013.

New Residential Sales

Sales of new single-family houses in February 2014 were at a seasonally adjusted annual rate of 440,000, according to estimates released by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 3.3 percent below the revised January rate of 455,000 and was 1.1 percent below the February 2013 estimate of 445,000.

The median sales price of new houses sold in February 2014 was \$261,800; the average sales price was \$317,500. The seasonally adjusted estimate of new houses for sale at the end of February was 189,000. This represents a supply of 5.2 months at the current sales rate.

By region, new houses sold in February 2014 compared to February 2013 were down 34.3 percent in the Northeast and down 27.5 percent in the West. Sales were up 1.5 percent in the Midwest and up 19.7 percent in the South.

Housing Starts

According to the U.S. Census Bureau and the Department of Housing and Urban Development, privately-owned housing starts in February were at a seasonally adjusted annual rate of 907,000. This was 0.2 percent below the revised January estimate of 909,000 and was 6.4 percent below the February 2013 rate of 969,000.

Single-family housing starts in February were at a rate of 583,000; this was 0.3 percent above the revised January figure of 581,000 and were 10.6 percent below February 2013. By region, single family starts were off 47.8 percent in the Northeast, 19.1 percent in the Midwest, 3.4 percent in the South and 5.0 percent in the West, from February 2013.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for February, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$427.2 billion, an increase of 0.3 percent from the previous month, and 1.5 percent above February 2013. Total sales for the December 2013 through February 2014 period were up 2.3 percent from the same period a year ago.

Retail trade sales were up 0.3 percent from January 2014, and 1.3 percent above last year. Nonstore retailers were up 6.3 percent from February 2013 and health and personal care stores were up 5.5 percent from last year.

On an adjusted basis, sales at furniture and home furnishings stores were up 0.4 percent from January and up 0.3 percent from February 2013.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1 percent in February 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 1.1 percent before seasonal adjustment.

An increase in the food index accounted for more than half of the all items increase in February. The food index rose 0.4 percent in February, driven by a 0.5 percent increase in the index for food at home, with four of the six major grocery store food group indexes increasing. The energy index declined, with a decrease in the gasoline index more than offsetting sharp increases in the fuel oil and natural gas indexes.

The index for all items less food and energy also rose 0.1 percent in February. An increase of 0.2 percent in the shelter

index was the major contributor to the rise, but the indexes for medical care, airline fares, personal care, recreation, and new vehicles also increased. In contrast, the indexes for household furnishings and operations, apparel, used cars and trucks, and tobacco all declined in February.

The all items index increased 1.1 percent over the last 12 months; this compares to increases of 1.5 percent in December and 1.6 percent in January. The index for all items less food and energy rose 1.6 percent over the last 12 months. The energy index declined 2.5 percent over the same period, while the food index has increased 1.4 percent.

Employment

Total nonfarm payroll employment rose by 175,000 in February, and the unemployment rate was little changed at 6.7 percent, according to the U.S. Bureau of Labor Statistics report. Employment increased in professional and business services and in wholesale trade but declined in information.

Both the number of unemployed persons (10.5 million) and the unemployment rate (6.7 percent) changed little in February. The jobless rate has shown little movement since December. Over the year, the number of unemployed persons and the unemployment rate were down by 1.6 million and 1.0 percentage point, respectively.

Durable Goods Orders and Factory Shipments

According to the U.S. Census Bureau News, new orders for manufactured durable goods in February increased \$5.0 billion or 2.2 percent to \$229.4 billion. This increase, up following two consecutive monthly decreases, followed a 1.3 percent January decrease. Excluding

transportation, new orders increased 0.2 percent. Excluding defense, new orders increased 1.8 percent.

Transportation equipment, also up two consecutive monthly decreases, led the increase, at 6.9 percent. This was led by nondefense aircraft and parts, which increased \$1.8 billion.

Shipments of manufactured durable goods in February, up following two consecutive monthly decreases, increased \$2.0 billion or 0.9 percent to \$234.0 billion. This followed a 0.6 percent January decrease.

Transportation equipment, also up following two consecutive monthly decreases, led the increase, \$0.9 billion or 1.3 percent to \$68.6 billion.

According to this report for January to January 2013 comparisons, new orders for furniture and related products were up 2.0 percent and shipments were up 2.6 percent.



Executive Summary

According to our latest survey of residential furniture manufacturers and distributors, new orders in January 2014 were up 2 percent over January 2013. New orders in January 2013 were up 7 percent over January 2012. The 2 percent increase was pretty much in line with expectations as we had heard that orders had slowed somewhat in January, blamed to some degree on weather.

Shipments were up 3 percent over January 2013 when they were 10 percent higher than January 2012.

Orders were up for approximately ½ of our participants while shipments were up for approximately 58 percent of the participants, comparing January 2014 to January 2013.

As has been the case recently, for any month, the results have been quite varied. We think some of this relates to timing, especially for importers of case goods, as well as some upholstery. Upholstery is affected by both imports of finished goods but also frames and fabrics that are imported. It is usually better to pay more attention once we get a few months of the year behind us.

Receivable levels were a bit out of line in January, rising 6 percent on increases in shipments of only 3 percent but we are hoping that is a timing issue. Receivables have been very much in line for some time now so we will continue to watch for now.

Inventories remained in line with current business conditions, up 3 percent over January 2013. Inventories were up 4 percent over December, but as we have

said before, inventories have seemingly followed business for some time now.

The number of factory and warehouse payrolls was 5 percent higher than January 2013, up from 4 percent reported last month. This increase has risen steadily since July when the number was up 2 percent.

Factory and warehouse payrolls were up 13 percent following a 9 percent increase reported for all of 2013. Except for December 2013, payrolls have been up double digits for several months. We are not quite certain why payrolls are up more than expected. We think some of it may be that overall, upholstery has fared a bit better than case goods and with more upholstery made domestically, some of the increase could be attributable to that.

The national news that affects the industry was, for the most part, pretty much ok. Consumer confidence was up a bit, as were retail sales and leading indicators. The housing results were off a bit, but it is hard to continue double digit growth year over year, when supplies are low, mortgages are harder to get or get through the system, and weather has been a major drag on housing.

Speaking of a major drag, weather has certainly played a huge role in furniture sales in February and March. The weather has affected everything from suppliers to manufacturers and distributors, to shut down of plants and distribution facilities, to trucking operations, to retail stores having to close, to customers not able to get to stores, and even when goods were sold, some could not be delivered. For much of the country, spring has just not sprung.

If there is such a thing as pent up demand in the industry, we certainly should have some now. But we still need housing to continue to improve. As we

mentioned earlier, much of the economic news is favorable, at least to some degree. Inflation remains in check. Interest rates, though rising slightly, remain very favorable.

The long range forecast for weather at the High Point Market looks promising so let's hope that it brings beautiful April springtime weather so that everyone can come in a great mood and find great new products. We hope to see many of you here.



Estimated Business Activity (Millions of Dollars)				
	January 2014	December 2013	January 2013	December 2012
New Orders	1,877	1,775	1,833	1,698
Shipments	1,848	1,985	1,788	1,917
Backlog (R)	1,898	1,880	1,656	1,611

(R) Revised

Key Monthly Indicators		
	January 2014 From December 2013 Percent Change	January 2014 From January 2013 Percent Change
New Orders	+8	+2
Shipments	-4	+3
Backlog	+1	+15
Payrolls	+2	+13
Employees	+1	+5
Receivables	-	+6
Inventories	+4	+3

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
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
December	+5	+4	+14	+4
2014				
January	+2	+3	+15	+5