

# Furniture Insights®

## Monthly Results

### New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in August 2013 were 9 percent higher than August 2012. This result was pretty much in line with much of what we had heard up through the end of August. August 2012 orders were 8 percent higher than August 2012 so we were comparing to some pretty good results in the previous year.

Approximately 76 percent of the participants reported increased orders in the month, the same as reported last month. In August, just over 40 percent of the participants reported double digit increases in orders.

Year-to-date, new orders remained 6 percent ahead of the first 8 months of 2012. In 2012, the year-to-date orders were 5 percent above 2011. Year-to-date, some 78 percent of the participants have reported increased orders, the same as last month. This compares to 56 percent reporting increases last year.

### Shipments and Backlogs

Shipments in August were up only 3 percent compared to August 2012. In 2012, August shipments were up 6 percent over 2011. Year-to-date, shipments remained 4 percent ahead of the first eight months of 2012. Approximately 71 percent of the participants reported increased shipments year-to-date.

Backlogs rose 17 percent over August 2012 as orders continue to outpace shipments. Backlogs were 13 percent higher in July compared to July 2012.



### Receivables and Inventories

Receivable levels actually fell 3 percent from August 2012 but were 3 percent higher than July. We suspect the 3 percent decline from last year was a timing issue.

Inventories remained flat with last year's levels and were up 1 percent from July 2013. Inventories continue to appear to be in good shape considering volume levels.

### Furniture Insights®

A Monthly Newsletter

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

Factory and warehouse employees were 2 percent higher than last year, about the same as reported last month. Last year at this time, the number of employees was 3 percent higher than August 2011.

Factory and warehouse payrolls were up 13 percent over last year and 12 percent higher than July. The increase over July is somewhat normal with the shutdown week in July, but the increase over last year seems a bit much. We are thinking this is also a timing issue.

Year-to-date, factory and warehouse payrolls were up 7 percent for the eight months, up from a 6 percent increase reported last month.

## **National**

Due to the shutdown for several governmental agencies, several of the normal national statistics were not available at our time of releasing this report. We have reported all that were available.

## **Consumer Confidence**

According to The Conference Board, the Consumer Confidence Index®, which had declined moderately in September, decreased sharply in October. The Index now stands at 71.2 (1985=100), down from 80.2 in September. The Present Situation Index decreased to 70.7 from 73.5. The Expectations Index fell to 71.5 from 84.7 last month.

Lynn Franco, Director of Economic Indicators at The Conference Board said: “Consumer confidence deteriorated considerably as the federal government shutdown and debt-ceiling crisis took a particularly large toll on consumers’ expectations. Similar declines in confidence were experienced during the

payroll tax hike earlier this year, the fiscal cliff discussions in late 2012, and the government shutdown in 1995/1996. However, given the temporary nature of the current resolution, confidence is likely to remain volatile for the next several months.”

Consumers’ assessment of current conditions declined moderately. Those claiming business conditions are “good” decreased to 19.0 percent from 20.7 percent, however, those claiming business conditions are “bad” edged down to 23.0 percent from 23.9 percent. Consumers’ appraisal of the job market was less favorable than last month. Those saying jobs are “plentiful” was virtually unchanged at 11.3 percent from 11.4 percent, while those saying jobs are “hard to get” increased to 35.8 percent from 33.6 percent.

Consumers’ expectations, which had softened in September, decreased sharply in October. Those expecting business conditions to improve over the next six months fell to 16.0 percent from 20.6 percent, while those expecting business conditions to worsen increased to 17.5 percent from 10.3 percent.

## **Thomson Reuters/University of Michigan Surveys of Consumers**

According to the Surveys of Consumers Thomson Reuters/University of Michigan, confidence declined in the October 2013 survey as consumers became convinced that the Federal shutdown as well as other restrictions on government spending would slow the overall pace of economic growth over the next several months. Overall, the Sentiment Index fell to its lowest level since the fiscal cliff crisis in late 2012, and the Expectations Index is now at its lowest level since late 2011. Perhaps the most significant finding is

that consumers have increasingly moved toward the view that the government has become the primary obstacle to more robust economic growth. When asked to describe in their own words what they had heard about recent economic developments, the number of consumers that negatively mentioned the federal government in October was the highest in the more than half-century history of the surveys.

Surveys of Consumers chief economist, Richard Curtin said: "This was the third time in the past three years that negative references to the government's impact on the economy set another half-century peak level. Indeed, after each repeated advance in optimism during the past three years, a revival of the DC follies promptly reversed the gain. It is hard to imagine how economic uncertainty will decline in the next few months since nothing was settled, only postponed; nonetheless, the battered consumer will heave a sigh of relief during the brief stoppage between rounds in the DC fight. Although pushed to the back-burner, concerns about job prospects have significantly worsened during the past year."

Just 25% of all households expected their finances to improve in the year ahead, with half of all families expecting no income increase. Inflation-adjusted income prospects improved slightly from last month, largely due to a decline in the expected inflation rate. Offsetting heightened concerns about prospects for wages and jobs, consumers reported gains in their household wealth, including rising values of stocks and homes.

The Sentiment Index was 73.2 in October 2013, down from 77.5 in September and last October's 82.6. Most of the weakness was in the Expectations

Index, which fell to 62.5 in October from 67.8 in September and last year's 79.0. The Current Conditions Index was 89.9 in October, down from 92.6 in September, but just above last October's 88.1.

## **Housing**

### **Existing-Home Sales**

After hitting the highest level in nearly four years, existing-home sales declined in September, but limited inventory conditions continued to pressure home prices in much of the country, 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 1.9 percent to a seasonally adjusted annual rate of 5.29 million in September from a downwardly revised 5.39 million in August, but were 10.7 percent above the 4.78 million-unit pace in September 2012. Sales have remained above year-ago levels for the past 27 months.

Single-family home sales slipped 1.5 percent to a seasonally adjusted annual rate of 4.68 million in September from 4.75 million in August, but were 10.9 percent above the 4.22 million-unit pace in September 2012. The median existing single-family home price was \$199,300 in September, which was 11.4 percent higher than a year ago.

Lawrence Yun, NAR chief economist, said a decline was expected. "Affordability has fallen to a five-year low as home price increases easily outpaced income growth," he said. "Expected rising mortgage interest rates will further lower affordability in upcoming months. Next month we may see some delays associated with the government shutdown."

According to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage rose to 4.49 percent in September from 4.46 percent in August, and is the highest since July 2011 when it was 4.55 percent; the rate was 3.47 percent in September 2012.

The national median existing-home price for all housing types was \$199,200 in September, up 11.7 percent from September 2012. This is the 10<sup>th</sup> consecutive month of double-digit year-over-year increases.

Total housing inventory at the end of September was unchanged at 2.21 million existing homes available for sale, which represents a 5.0-month supply at the current sales pace, compared with a 4.9-month supply in August. Unsold inventory is 1.8 percent above a year ago, when there was a 5.4-month supply.

### **Regional**

Regionally, existing-home sales in the Northeast declined 2.8 percent to an annual rate of 690,000 in September, but were 15.0 percent above September 2012. The median price in the Northeast was \$240,900, up 2.3 percent from a year ago.

Existing-home sales in the Midwest fell 5.3 percent in September to a pace of 1.25 million, but were 12.6 percent higher than a year ago. The median price in the Midwest was \$158,400, which was 9.0 percent above September 2012.

In the South, existing-home sales declined 1.4 percent to an annual level of 2.10 million in September, but were 9.9 percent above September 2012. The median price in the South was \$171,600, up 13.9 percent from a year ago.

Existing-home sales in the West rose 1.6 percent to a pace of 1.25 million in September, but were 7.8 percent higher

than a year ago. With ongoing inventory restrictions, the median price in the West rose to \$286,300, which was 16.8 percent above September 2012.

### **Retail Sales**

The U.S. Census Bureau reported that advance estimates of U.S. retail and food services sales for September, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$425.9 billion, a decrease of 0.1 percent from the previous month, but 3.2 percent above September 2012. Total sales for the July through September 2013 period were up 4.5 percent from the same period a year ago.

Retail trade sales were down 0.2 percent from August 2013, but 3.1 percent above last year. Nonstore retailers were up 8.9 percent from September 2012 and miscellaneous store retailers were up 6.2 percent from last year.

Sales on an adjusted basis at furniture and home furnishings stores were up slightly from August and up 4.3 percent from September 2012. Year-to-date, sales at these stores were up 3.5 percent for the nine months. For the quarter ended September 2013, sales were up 4.0 percent from the same quarter a year ago.

### **Employment**

Total nonfarm payroll employment rose by 148,000 in September, and the unemployment rate was little changed at 7.2 percent, according to the latest from the U.S. Bureau of Labor Statistics report. Employment increased in construction, wholesale trade, and transportation and warehousing.

The unemployment rate, at 7.2 percent, changed little in September but has declined by 0.4 percentage point since June. The number of unemployed persons,

at 11.3 million, was also little changed over the month; however, unemployment has decreased by 522,000 since June.

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

New orders for manufactured durable goods in September increased \$8.2 billion or 3.7 percent to \$233.4 billion, according to the U.S. Census Bureau. This increase, up five of the last six months, followed a 0.2 percent August increase. Excluding transportation, new orders decreased 0.1 percent. Excluding defense, new orders increased 3.2 percent.

Transportation equipment, also up five of the last six months, drove the increase, \$8.4 billion or 12.3 percent to \$77.0 billion. This was led by nondefense aircraft and parts, which increased \$6.9 billion.

Shipments of manufactured durable goods in September, up two consecutive months, increased \$0.5 billion or 0.2 percent to \$231.8 billion. This was at the highest level since the series was first published on a NAICS basis in 1992, and followed a 0.8 percent August increase.

Primary metals, up five of the last six months, led the increase, \$0.2 billion or 0.8 percent to \$25.8 billion.



### **Executive Summary**

The results of our recent survey were very positive with new orders for residential furniture manufacturers and distributors in August

up 9 percent over August 2012 after an 8 percent increase reported in August 2012 versus August 2011. Year-to-date, new orders remained 6 percent ahead of 2012.

Shipments were up 3 percent over August 2012 and remained 4 percent ahead of last year on a year-to-date basis. With orders continuing to exceed shipments, backlogs were up 17 percent over last year. We suspect, they will begin to get back in line over the next few months.

Inventory levels continue to look good as do receivables, although receivable levels did seem a bit low for August. We believe this is probably a timing issue.

From all we heard at Market, as well as previous to Market, business at retail was pretty good up through Labor Day, then when Washington shut the bulk of government down, business really seemed to soften. Some reports at Market indicated that business had picked back up the week or so prior to Market.

Overall, we thought it was a good Market. Several folks we talked to indicated attendance at their showroom was up nicely, but overall our guess is that attendance was about even with last October. The overall mood was very good and there was some great reception to product. While we are not merchandisers by any means, we certainly thought we saw some great looking product.

While mood of Market was good, mood of consumer confidence was not as it fell at the Conference Board as well as at the University of Michigan/Thomson Reuters report. Most of this blame was at the feet of federal government shutdown. Similar to previous fiscal cliff and government shutdowns, consumer expectations declined. It seems that every time the economy and especially the furniture industry seems to gain some momentum, something like this happens.

We hope that consumers are getting a bit used to some of this, but the confidence surveys do not seem to indicate that.

Existing home sales slowed a bit in September but were still well ahead of last year. It seems that low inventories are hurting existing home sales as well as starting to drive up pricing. Mortgage rates, while rising, are still at historically low rates, so we hope that they will stay at reasonable levels.

Retail sales in September were down slightly but up at furniture and home furnishings stores according to the U.S. Census Bureau so that seemed to confirm what we were hearing.

So at least until the next crisis from our government, we hope that business will continue to improve. Hopefully the enthusiasm from Market will carry over. Buyers will fill showrooms with great new merchandise which will "Wow" consumers that come in the stores into a great buying mode. At least that is our hope.



Estimated Business Activity (Millions of Dollars)						
	2013			2012		
	August	July	8 Months	August	July	8 Months
New Orders	1,936	1,847	15,400	1,784	1,629	14,545
Shipments	1,855	1,769	15,336	1,794	1,623	14,816
Backlog	1,966	1,920		1,681	1,708	

Key Monthly Indicators			
	August 2013 From July 2013 Percent Change	August 2013 From August 2012 Percent Change	8 Months 2013 Versus 8 Months 2012 Percent Change
New Orders	+3	+9	+6
Shipments	+17	+3	+4
Backlog	+2	+17	
Payrolls	+12	+13	+7
Employees	-	+2	
Receivables	+3	-3	
Inventories	+1	-	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
<b>2012</b>				
August	+8	+6	+6	+3
September	+10	-1	+13	+4
October	+6	+5	+15	+4
November	-1	+3	+8	+4
December	-7	-1	+5	+3
<b>2013</b>				
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