SMITH LEONARD
Accountants & Consultants

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# Furniture Insights®

## Monthly Results

### New Orders

According to our recent survey of residential furniture manufacturers and distributors, new orders in August 2015 were 3 percent higher than August 2014, down slightly from the 4 percent increase reported last month. The increase continued the string of positive comparisons to prior year results. For the month, new orders increased for about 50 percent of the participants. This percent was down from 64 percent of the participants reporting increases last month.

Year-to-date, new orders remained 5 percent ahead of last year. For the year-to-date, new orders were up for 56 percent of our participants, the same as we reported last month.

### Shipments and Backlogs

Shipments were up 8 percent in August 2015 compared to August 2014. Shipments in August 2015 were up over August 2014 for some 64 percent of our participants, the same percentage as we reported last month.

Year-to-date, shipments were up 7 percent over the same period a year ago. Almost 70 percent of our participants reported increased shipments year-to-date.

Backlogs were 5 percent higher in August versus August 2014, down from a 9 percent increase reported last month. This was due to the volume of shipments being higher than the volume of orders in August. In August 2014, backlogs were 3 percent higher than August 2013 so the 5 percent increase should indicate that backlogs remain relatively strong.

### Receivables and Inventories

Receivables were up 1 percent over August 2014 in spite of the 8 percent increase in shipments for the August monthly comparison and the 7 percent increase in shipments, year-to-date. July receivable levels were 2 percent higher than July 2014. Obviously, based on these results, receivable levels appear to be in good shape.

Furniture Insights®
A Monthly Newsletter

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Inventories were 9 percent higher than August 2014 and were up 2 percent from July 2015. This compared to a 6 percent increase reported last month. Inventory levels will need to be watched. The 9 percent increase could be a matter of timing – at least we hope that is at least part of the reason.

## Factory and Warehouse Employees and Payrolls

Factory and warehouse employees were up 3 percent over August 2014, the same increase as reported last month. Factory and warehouse payrolls were up 10 percent over August 2014, up slightly from 9 percent reported last month. Year-to-date, factory and warehouse payrolls were up 7 percent over the first 8 months of 2014, up from 6 percent reported last month.

# National

## Consumer Confidence

The Conference Board *Consumer Confidence Index®*, which had increased moderately in September, declined in October. The Index now stands at 97.6 (1985 = 100), down from 102.6 in September. The Present Situation Index decreased from 120.3 last month to 112.1 in October, while the Expectations Index edged down to 88.0 from 90.8 in September.

"Consumer confidence declined in October, following September's modest gain," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers were less positive in their assessment of present-day conditions, in particular the job market, and were moderately less optimistic about the short-term outlook. Despite the decline, consumers still rate current conditions favorably, but they do not anticipate the economy strengthening much in the near term."

Consumers' appraisal of current conditions was somewhat less positive in October. Those saying business conditions are "good" decreased from 28.1 percent to 26.5 percent, while those claiming business conditions are "bad" increased from 16.4 percent to 18.3 percent. Consumers were also less upbeat about the job market. Those stating jobs are "plentiful" decreased from 24.8 percent to 22.2 percent, while those claiming jobs are "hard to get" edged up to 25.8 percent from 24.9 percent.

Consumers' optimism about the short-term outlook was more subdued in October. The percentage of consumers expecting business conditions to improve over the next six months was unchanged at 18.1 percent, while those expecting business conditions to worsen inched up to 10.6 percent from 10.4 percent.

## Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. declined 0.2 percent in September to 123.3 (2010 = 100). The Index was unchanged in August and July.

"Despite September's decline, the U.S. LEI still suggests economic expansion will continue, although at a moderate pace," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "The recent weakness in stock markets, the manufacturing sector and housing permits was offset by gains in financial indicators, and to a lesser extent improvements in consumer expectations and initial claims for unemployment insurance. The U.S. economy is on track for moderate growth of about 2.5 percent in the coming quarters, despite the mixed global economic landscape."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2 percent in September to 112.8 (2010 = 100), following a 0.1 percent increase in August, and a 0.3 percent increase in July.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.5 percent in September to 119.0 (2010 = 100), following a 0.1 percent increase in August, and a 0.4 percent increase in July.

## Housing

### Existing-Home Sales

Existing-home sales rebounded strongly in September following August's decline and have now increased year-over-year for 12 consecutive months, according to the National Association of Realtors® (NAR). All four major regions experienced sales gains in September.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, increased 4.7 percent to a seasonally adjusted annual rate of 5.55 million in September from a slightly downwardly revised 5.30 million in August, and were 8.8 percent above a year ago (5.10 million).

Single-family home sales rose 5.3 percent to a seasonally adjusted annual rate of 4.93 million in September from 4.68 million in August, and were 9.6 percent above the 4.50 million pace a year ago. The median existing single-family home price was $223,500 in September, up 6.6 percent from September 2014.

Existing condominium and co-op sales were at a seasonally adjusted annual rate of 620,000 units in September (unchanged from August), and were up 3.3 percent from September 2014 (600,000 units). The median existing condo price was $209,200 in September, which was 1.9 percent above a year ago.

Lawrence Yun, NAR chief economist, says a slight moderation in home prices in some markets and mortgage rates remaining below 4 percent gave more households the confidence to close on a home last month. "September home sales bounced back solidly after slowing in August and are now at their second highest pace since February 2007 (5.79 million)," he said. "While current price growth around 6 percent is still roughly double the pace of wages, affordability has slightly improved since the spring and is helping to keep demand at a strong and sustained pace."

The median existing-home price for all housing types in September was $221,900, which was 6.1 percent above September 2014 ($209,100). September's price increase marks the 43rd consecutive month of year-over-year gains.

Total housing inventory at the end of September decreased 2.6 percent to 2.21 million existing homes available for sale, and was 3.1 percent lower than a year ago (2.28 million). Unsold inventory was at a 4.8-month supply at the current sales pace, down from 5.1 months in August.

"Despite persistent inventory shortages, the housing market has made great strides this year, backed by an increasing share of pent-up sellers realizing the increased equity they've gained from rising home prices and using it towards trading up or moving into a smaller home," says Yun. "Unfortunately, first-time buyers are still failing to generate any meaningful traction this year."

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage remained below 4 percent for the second consecutive month, declining slightly in September to 3.89 from 3.91 percent in August. A year ago, the average commitment rate was 4.16 percent.

## Regional

September existing-home sales in the Northeast jumped 8.6 percent to an annual rate of 760,000, and were 11.8 percent above a year ago. The median price in the Northeast was $256,500, which was 4.0 percent above September 2014.

In the Midwest, existing-home sales climbed 2.3 percent to an annual rate of 1.31 million in September, and were 12.0 percent above September 2014. The median price in the Midwest was $174,400, up 5.4 percent from a year ago.

Existing-home sales in the South rose 3.8 percent to an annual rate of 2.21 million in September, and were 5.7 percent above September 2014. The median price in the South was $191,500, up 6.2 percent from a year ago.

Existing-home sales in the West increased 6.7 percent to an annual rate of 1.27 million in September, and were 9.5 percent above a year ago. The median price in the West was $318,100, which was 8.0 percent above September 2014.

## New Residential Sales

Sales of new single-family houses in September 2015 were at a seasonally adjusted annual rate of 468,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 11.5 percent below the revised August rate of 529,000, but was 2.0 percent above the September 2014 estimate of 459,000.

The median sales price of new houses sold in September 2015 was $296,900; the average sales price was $364,100. The seasonally adjusted estimate of new houses for sale at the end of September was 225,000. This represents a supply of 5.8 months at the current sales rate.

Comparing September 2015 sales to September 2014, sales of new houses were up 8.3 percent in the South and 8.6 percent in the West. Sales were down 56.7 percent in the Northeast and down 8.3 percent in the Midwest.

## Housing Starts

The U.S. Census Bureau and the Department of Housing and Urban Development jointly announced that privately-owned housing starts in September were at a seasonally adjusted annual rate of 1,206,000. This was 6.5 percent above the revised August estimate of 1,132,000 and was 17.5 percent above the September 2014 rate of 1,026,000.

Single-family housing starts in September were at a rate of 740,000; this was 0.3 percent above the revised August figure of 738,000.

Single-family starts in September 2015 compared to September 2014 were up 3.7 percent in the Northeast, 16.3 percent in the South and 19.0 percent in the West, but were down 6 percent in the Midwest.

## Retail Sales

The U.S. Census Bureau announced 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 $447.7 billion, an increase of 0.1 percent from the previous month, and 2.4 percent above September 2014. Total sales for the July 2015 through September 2015 period were up 2.3 percent from the same period a year ago. The July 2015 to August 2015 percent change was revised from +0.2 percent to virtually unchanged.

Retail trade sales were virtually unchanged from August 2015, and 1.7 percent above last year. Motor vehicle and parts dealers were up 8.8 percent from last year and food services and drinking places were up 7.9 percent from September 2014.

On an adjusted basis, sales at furniture and home furnishings stores were up 5.2 percent over September 2014 and up 5.4 percent year-to-date.

## Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) decreased 0.2 percent in September on a seasonally adjusted basis, according to the report from the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index was essentially unchanged before seasonal adjustment.

The energy index fell 4.7 percent in September, with all major component indexes declining. The gasoline index continued to fall sharply and was again the main cause of the seasonally adjusted all items decrease. The indexes for fuel oil, electricity, and natural gas declined as well.

In contrast to the energy declines, the indexes for food and for all items less food and energy both accelerated in September. The food index rose 0.4 percent, its largest increase since May 2014. The index for all items less food and energy rose 0.2 percent in September. The indexes for shelter, medical care, household furnishings and operations, and personal care all increased; the indexes for apparel, used cars and trucks, new vehicles, and airline fares were among those that declined.

The all items index was essentially unchanged for the 12 months ending September after posting a 0.2 percent increase for the 12 months ending August. The 18.4 percent decline in the energy index over the past year offset increases in the indexes for food (up 1.6 percent) and all items less food and energy (up 1.9 percent).

## Employment

Total nonfarm payroll employment increased by 142,000 in September, and the unemployment rate was unchanged at 5.1 percent, according to the recent report from the U.S. Bureau of Labor Statistics. Job gains occurred in health care and information, while mining employment fell.

In September, the unemployment rate held at 5.1 percent, and the number of unemployed persons (7.9 million) changed little. Over the year, the unemployment rate and the number of unemployed persons were down by 0.8 percentage point and 1.3 million, respectively.

The number of persons unemployed for less than 5 weeks increased by 268,000 to 2.4 million in September, partially offsetting a decline in August. The number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 2.1 million in September and accounted for 26.6 percent of the unemployed.

## Durable Goods Orders and Factory Shipments

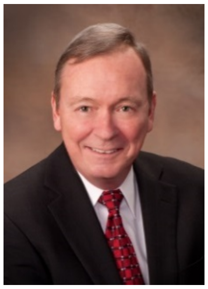
New orders for manufactured durable goods in September decreased $2.9 billion or 1.2 percent to $231.1 billion, according to the latest report from the U.S. Census Bureau. This decrease, down two consecutive months, followed a 3.0 percent August decrease. Excluding transportation, new orders decreased 0.4 percent. Excluding defense, new orders decreased 2.0 percent.

Transportation equipment, also down two consecutive months, led the decrease, $2.2 billion or 2.9 percent to $75.5 billion.

Shipments of manufactured durable goods in September, up three of the last four months, increased $0.4 billion, or 0.2 percent, to $242.5 billion. This followed a 0.5 percent August decrease.

Transportation equipment, also up three of the last four months, drove the increase, $0.5 billion or 0.6 percent to $81.0 billion.

According to the final report for August, year-to-date, new orders for furniture and related products were 6.3 percent ahead of the same period a year ago and shipments increased 6.8 percent over the same period.



## Executive Summary

New orders in August 2015 were 3 percent higher than August 2014 orders, according to our latest survey of residential furniture manufacturers and distributors. August 2014 orders were 5 percent higher than August 2013. The increase in August continued the string of increased orders, up 17 straight months and 25 of the last 26 months.

Year-to-date, new orders remained 5 percent ahead of the first eight months of last year with approximately 56 percent of the participants reporting increased orders, year-to-date.

Shipments were up 8 percent over August 2014 when shipments were 6 percent higher than August 2013. Year-to-date, shipments remained 7 percent ahead of 2014. Year-to-date, shipments in 2014 were 6 percent higher than 2013, so the 7 percent increase is off of some pretty good comparisons.

Backlogs were up 5 percent over August 2014, falling 5 percent from July as shipments in dollars exceeded orders.

We were asked by someone at market to summarize year-end results since 2010 up to 2014. We were somewhat surprised at the results. According to our survey, shipments have increased each year between 5 and 6 percent every year except 2010, when they were up 7 percent. Orders were slightly different, ranging from 4 percent to 8 percent, but averaging just under 6 percent. So we have really seen some nice consistent growth overall through those years. Admittedly, not all participants have participated at the same rate, but at least, according to our survey, the industry has performed pretty consistently through the last 5 plus years.

Receivable levels are in really good shape considering current shipment levels. Inventories are a bit high but we will just have to watch them over the next few months.

Factory and warehouse employee levels were consistent being up 3 percent over last year. Factory and warehouse payrolls were up 7 percent year-to-date, in line with shipments.

## National

On the national front, consumer confidence slipped a bit in September as did the Conference Board's Leading Economic Index. Existing home sales rose across all four regions while new home sales slipped but those results varied by region significantly. Housing starts continued to be very positive.

Retail sales were positive especially in furniture and home furnishings stores, up 5.2 percent over September 2014 and up 5.4 percent year-to-date. Inflation remained under control especially with falling gas and energy prices.

On a very bright note, we felt that October market was a very positive market. First, the weather, though a bit cool a couple of mornings, was really awesome. When stepping outside after being in any building or showroom, the weather was so refreshing. The Market Authority's efforts for market were great and the transportation system worked pretty much flawlessly. The entertainment, especially Sunday night with Michael McDonald, formerly with the Doobie Brothers (ok, so everyone does not know) was awesome as was the Hall of Fame Dinner.

As best we could tell, designer traffic was up as was probably attendance overall. The head of the transportation system told us that riders were up quite a bit (maybe because I was too tired to walk as much as normal). But overall, we think market reflected pretty much what is going on at retail.

Let's hope as all the retail friends return to home, that business confirms their need to continue to order all those placements and commitments that will be needed to spruce up the floors back home.

| Estimated Business Activity (Millions of Dollars) | | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | August | July | 8 Months | August | July | 8 Months |
| New Orders | 2,083 | 2,014 | 16,940 | 2,024 | 1,928 | 16,129 |
| Shipments | 2,123 | 2,110 | 17,395 | 1,966 | 1,964 | 16,208 |
| Backlog (R) | 2,073 | 2,101 | | 1,984 | 1,926 | |

| Key Monthly Indicators | | | |
|---|---|---|---|
| | August 2015 From July 2015 Percent Change | August 2015 From August 2014 Percent Change | 8 Months 2015 Versus 8 Months 2014 Percent Change |
| New Orders | +3 | +3 | +5 |
| Shipments | +10 | +8 | +7 |
| Backlog | -5 | +5 | |
| Payrolls | +10 | +10 | +7 |
| Employees | – | +3 | |
| Receivables | +1 | +1 | |
| Inventories | +2 | +9 | |

| Percentage Increase or Decrease Compared to Prior Year | | | | |
|---|---|---|---|---|
| | New Orders | Shipments | Backlog | Employment |
| 2014 | | | | |
| August | +5 | +6 | +3 | +4 |
| September | +8 | +6 | +3 | +2 |
| October | +12 | +7 | +9 | +1 |
| November | +3 | +1 | +8 | +2 |
| December | +15 | +6 | +17 | +2 |
| 2015 | | | | |
| January | +7 | +10 | +16 | +3 |
| February | +8 | +12 | +11 | +2 |
| March | +2 | +4 | +9 | +2 |
| April | +3 | +5 | +7 | +3 |
| May | +5 | +5 | +7 | +2 |
| June | +10 | +6 | +12 | +2 |
| July | +4 | +7 | +9 | +3 |
| August | +3 | +8 | +5 | +3 |