

Furniture Insights®

Monthly Results

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in March fell 2 percent from March 2015. This was the second month in a row that orders fell from the previous year, as orders were off 1 percent in the February to February comparison. Orders were off at some 56 percent of the participants for the month.

Year-to-date, new orders are now just slightly under the first quarter of 2015. As with the month's results, approximately 56 percent of the participants reported declines in orders versus the prior year.

Shipments and Backlogs

Shipments were up 4 percent in March 2016 versus March 2015 following a 3 percent increase reported last month. Shipments were up for approximately 61 percent of the participants.

Year-to-date, shipments were up 2 percent over the first quarter of 2015 with 47 percent of the participants reporting increased shipments.

With shipments increasing and orders decreasing, backlogs fell some 5 percent from February results and were down 8 percent from March 2015. Last month, backlogs were down 3 percent from February 2015.

Receivables and Inventories

Receivable levels fell 4 percent from March 2015 in spite of shipments being up 4 percent over the same period a year ago. Receivable levels were up 1 percent over February even with the 15 percent increase



in shipments (the 15 percent increase in shipments over February was due partially to the additional days in March versus February).

We expect some of these results related to some timing issues. So we will see if these are more in line next month.

Furniture Insights® A Monthly Newsletter

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Inventories were 5 percent higher in March versus March 2015, but were down 2 percent from February. With declining orders and higher shipments, the inventory levels appear to be moving in the right direction. In February 2016, inventories were also 5 percent higher than February 2015.

Factory and Warehouse Employees and Payrolls

Factory and warehouse employee levels were flat with February but were up 2 percent over March 2015. This increase was up from 1 percent reported last month.

Factory and warehouse payrolls were up 4 percent over March 2015, down from the 9 percent reported last month. Year-to-date, factory and warehouse payrolls were up 3 percent over the first quarter of 2015, somewhat in line considering the mix of increased shipments and declining orders.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index*[®], which had decreased in April, declined further in May. The Index now stands at 92.6 (1985 = 100), down from 94.7 in April. The Present Situation Index decreased from 117.1 to 112.9, while the Expectations Index declined from 79.7 to 79.0 in May.

“Consumer confidence declined slightly in May, primarily due to consumers rating current conditions less favorably than in April,” said Lynn Franco, Director of Economic Indicators at The Conference Board. “Expectations declined further, as consumers remain cautious about the outlook for business and labor market conditions. Thus, they continue to

expect little change in economic activity in the months ahead.”

Consumers’ assessment of current conditions weakened in May. The percentage stating business conditions are “good” improved from 24.2 percent to 25.9 percent. However, those saying business conditions are “good” improved from 24.2 percent to 25.9 percent. However, those saying business conditions are “bad” also increased, from 18.2 percent to 21.6 percent. Consumers’ appraisal of the labor market was less favorable. The proportion claiming jobs are “plentiful” was virtually unchanged at 24.3 percent, however those claiming jobs are “hard to get” increased from 22.8 percent to 24.4 percent.”

Consumers were less optimistic about the short-term outlook than last month. Those expecting business conditions to improve over the next six months increased from 13.8 percent to 15.1 percent, but those expecting business conditions to worsen also rose, from 10.8 percent to 11.6 percent.

Consumers’ outlook for the labor market was less favorable. Those anticipating more jobs in the months ahead was virtually unchanged at 12.8 percent, but those anticipating fewer jobs increased from 16.7 percent to 18.1 percent. The proportion of consumers expecting their incomes to increase improved from 15.8 percent to 16.2 percent, while the proportion expecting a reduction in income remained steady at 12.4 percent. The percentage of consumers expecting business conditions to improve over the next six months decreased from 14.7 percent to 13.4 percent, while those expecting business conditions to worsen rose to 11.0 percent from 9.5 percent.

University of Michigan Surveys of Consumers

According to the Surveys of Consumers University of Michigan, consumer sentiment rebounded in May to its highest level in the last nine months. There have been only four times out of the last 110 monthly surveys that the Sentiment Index was higher. The renewed strength was due to increased jobs and incomes as well as low inflation and interest rates. In addition, homeowners more frequently reported gains in home values than anytime during the past decade. Overall, the data indicate that real consumption will grow by 2.5 percent in 2016 and by 2.7 percent in 2017.

Surveys of Consumers chief economist, Richard Curtin said: “The gains in consumer confidence are all the more remarkable since they followed dismal reports on GDP and inflation. The renewed confidence is likely to encourage a higher labor force participation, acting to raise aggregate incomes and limit further declines in the unemployment rate. A growing sense of uncertainty, however, has also been recorded. The most important of source of this uncertainty is not whether the Fed will raise interest rates in the next few months, but the shape of government economic policies under a new president. This will temper consumer spending by acting to maintain a higher level of precautionary savings.”

Consumers voiced quite positive assessments of their personal finances. Recently improved finances were cited by 49 percent in May, the highest level since early 2005. When asked to explain how their finances had changed, more consumers cited income gains than any time since late 2000, and fewer consumers complained that price increases since 2003. In addition, the highest percent of

consumers since 2006 expected their financial situation to improve during the year ahead. This optimism is based on modest job increases as well as modest expected income gains—1.6 percent in May, which was higher than the annual average expected gain in the prior seven years.

Improved access to credit was cited by consumers as justification for their improved buying plans. The most favorable credit conditions were cited for vehicles since 2004 and for household durables since 2005. The biggest change for the housing market was how current home owners viewed home selling conditions. The May survey recorded the most positive views of home selling conditions in a decade, with the recent gains due to owners expecting to sell their homes for higher prices, high enough to avoid losses.

The Sentiment Index was 94.7 in the May 2016 survey, up from 89.0 in April and 90.7 last May’s survey. The Current Conditions Index rose to 109.9 in May, reaching its highest level since the last cyclical peak in January 2007. The Expectations Index rose to 84.9, significantly higher than last month’s 77.6, but barely above last May’s 84.2, and remained well below the January 2015 high of 91.0.

Gross Domestic Product (GDP)

Real gross domestic product – the value of the goods and services produced by the nation’s economy less the value of the goods and services used up in production, adjusted for price changes – increased at an annual rate of 0.8 percent in the first quarter of 2016, according to the “second” estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 1.4 percent.

The new GDP estimate is based on more complete source data than were available for the “advance” estimate issued last month. In the advance estimate, the increase in real GDP was 0.5 percent. With the second estimate for the first quarter, the decrease in private inventory investment was smaller than previously estimated.

The increase in real GDP in the first quarter primarily reflected positive contributions from personal consumption expenditures (PCE), residential fixed investment, and state and local government spending that were partly offset by negative contributions from nonresidential fixed investment, exports, private inventory investment, and federal government spending. Imports, which are a subtraction in the calculation of GDP, decreased.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.6 percent in April to 123.9 (2010 = 100), following no change in March, and a 0.1 percent increase in February.

“The U.S. LEI picked up sharply in April, with all components except consumer expectations contributing to the rebound from an essentially flat first quarter,” said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. “Despite a slow start in 2016, labor market and financial indicators, and housing permits all point to a moderate growth trend continuing in 2016.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.3 percent in April to 113.6 (2010=100), following no change in March, and a 0.2 percent increase in February.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.3 percent in April to 121.5 (2010=100), following a 0.5 percent increase in March, and a 0.4 percent increase in February.

Housing

Existing-Home Sales

Despite ongoing inventory shortages and faster price growth, existing-home sales sustained their recent momentum and moved higher for the second consecutive month, according to the National Association of Realtors® (NAR). A surge in sales in the Midwest and a decent increase in the Northeast offset smaller declines in the South and West.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, rose 1.7 percent to a seasonally adjusted annual rate of 5.45 million in April from an upwardly revised 5.36 million in March. After last month’s gain, sales were up 6.0 percent from April 2015.

Single-family home sales inched forward 0.6 percent to a seasonally adjusted annual rate of 4.81 million in April from 4.78 million in March, and were 6.2 percent higher than the 4.53 million pace a year ago. The median existing single-family home price was \$233,700 in April, up 6.2 percent from April 2015.

Existing condominium and co-op sales jumped 10.3 percent to a seasonally adjusted annual rate of 640,000 units in April from 580,000 in March, and were 4.9 percent above April 2015 (610,000 units). The median existing condo price was \$223,300 in April, which was 6.8 percent above a year ago.

Lawrence Yun, NAR chief economist, says April's sales increase signals slowly building momentum for the housing market this spring. "Primarily driven by a convincing jump in the Midwest, where home prices are most affordable, sales activity overall was at a healthy pace last month as very low mortgage rates and modest seasonal inventory gains encouraged more households to search for and close on a home," he said. "Except for in the West – where supply shortages and stark price growth are hampering buyers the most – sales are meaningfully higher than a year ago in much of the country."

The median existing-home price for all housing types in April was \$232,500, up 6.3 percent from April 2015 (\$218,700). April's price increase marks the 50th consecutive month of year-over-year gains.

Total housing inventory at the end of April increased 9.2 percent to 2.14 million existing homes available for sale, but was still 3.6 percent lower than a year ago (2.22 million). Unsold inventory is at a 4.7-month supply at the current sales pace, up from 4.4 months in March.

"The temporary relief from mortgage rates currently near three-year lows has helped preserve housing affordability this spring, but there's growing concern a number of buyers will be unable to find homes at affordable prices if wages don't rise and price growth doesn't slow," adds Yun.

The share of first-time buyers was 32 percent in April, up from 30 percent both in March and a year ago. First-time buyers in all of 2015 also represented an average of 30 percent.

Regional

April existing-home sales in the Northeast climbed 2.8 percent to an annual rate of 740,000, and were 17.5 percent above a

year ago. The median price in the Northeast was \$263,600, which was 4.1 percent above April 2015.

In the Midwest, existing-home sales soared 12.1 percent to an annual rate of 1.39 million in April, and were 12.1 percent above April 2015. The median price in the Midwest was \$184,200, up 7.7 percent from a year ago.

Existing-home sales in the South declined 2.7 percent to an annual rate of 2.19 million in April, but were still 4.3 percent above April 2015. The median price in the South was \$202,800, up 6.5 percent from a year ago.

Existing-home sales in the West decreased 1.7 percent to an annual rate of 1.13 million in April, and were 3.4 percent lower than a year ago. The median price in the West was \$335,000, which was 6.5 percent above April 2015.

New Residential Sales

Sales of new single-family houses in April 2016 were at a seasonally adjusted annual rate of 619,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 16.6 percent above the revised March rate of 531,000 and was 23.8 percent above the April 2015 estimate of 500,000.

The median sales price of new houses sold in April 2016 was \$321,100; the average sales price was \$379,800. The seasonally adjusted estimate of new houses for sale at the end of April was 243,000. This represents a supply of 4.7 months at the current sales rate.

Sales of new houses were up 323.1 percent in the Northeast (after a strong April 2016 versus a very weak April 2015), 18.1 percent in the South and 23.6 percent in the West. Sales were down 9.1 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 April were at a seasonally adjusted annual rate of 1,172,000. This was 6.6 percent above the revised March estimate of 1,099,000, but was 1.7 percent below the April 2015 rate of 1,192,000.

Single-family housing starts in April were at a rate of 778,000; this was 3.3 percent above the revised March figure of 753,000. Compared to April 2015, single-family starts were up 4.3 percent overall, up 3.7 percent in the Northeast, 5.6 percent in the Midwest, and 15.9 percent in the South, but were down 19.6 percent in the West.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for April, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$453.4 billion, an increase of 1.3 percent from the previous month, and 3.0 percent above April 2015. Total sales for the February 2016 through April 2016 period were up 2.8 percent from the same period a year ago.

Retail trade sales were up 1.4 percent from March 2016, and up 2.7 percent from last year. Nonstore retailers were up 10.2 percent from April 2015, while gasoline stations were down 9.4 percent from last year.

Sales in April at furniture and home furnishings stores, on an adjusted basis, were up 0.7 percent from March 2016 and up 3.6 percent from April 2015. Year-to-date, sales at these stores were up 5.6 percent.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4 percent in April on a seasonally adjusted basis, according to the latest report by the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index rose 1.1 percent before seasonal adjustment.

The seasonally adjusted all items increase was broad-based, with the indexes for food, energy, and all items less food and energy all rising in April. The food index fell 0.2 percent after declining in March, with the food at home index increasing slightly. The index for energy increased 3.4 percent, with the gasoline index rising 8.1 percent, and the indexes for fuel oil and natural gas also advancing.

The index for all items less food and energy increased 0.2 percent in April. The shelter index rose 0.3 percent, as did the index for medical care, and the indexes for motor vehicle insurance, airline fares, recreation, and education increased as well. Several other component indexes increased slightly, including those for alcoholic beverages, tobacco, and personal care. In contrast, the indexes for household furnishings and operations, apparel, new vehicles, used cars and trucks, and communication all declined.

The all items index rose 1.1 percent for the 12 months ending April, a larger increase than the 0.9-percent increase for the 12 months ending March. The index for all items less food and energy rose 2.1 percent over the last 12 months, compared to a 2.2-percent rise for the 12 months ending March. The food index has risen 0.9 percent over the last 12 months, and the energy index has declined 8.9 percent.

Employment

Total nonfarm payroll employment increased by 160,000 in April, and the unemployment rate was unchanged at 5.0 percent, according to the report from the U.S. Bureau of Labor Statistics. Job gains occurred in professional and business services, health care, and financial activities. Job losses continued in mining.

In April, the unemployment rate held at 5.0 percent, and the number of unemployed persons was little changed at 7.9 million. Both measures have shown little movement since August.

The number of long-term unemployed persons (those jobless for 27 weeks or more) declined by 150,000 to 2.1 million in April. These individuals accounted for 25.7 percent of the unemployed.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in April increased \$7.7 billion or 3.4 percent to \$235.9 billion, according to the U.S. Census Bureau. This increase, up three of the last four months, followed a 1.9 percent March increase. Excluding transportation, new orders increased 0.4 percent. Excluding defense, new orders increased 3.7 percent.

Transportation equipment, also up three of the last four months, led the increase, \$7.1 billion or 8.9 percent to \$87.1 billion.

Shipments of manufactured durable goods in April, up following two consecutive monthly decreases, increased \$1.5 billion or 0.6 percent to \$232.5 billion. This followed a 0.8 percent March decrease.

Transportation equipment, also up following two consecutive monthly decreases, led the increase, \$1.0 billion or 1.3 percent to \$80.9 billion.

According to the final report for March, new orders for furniture and related products were up 5.2 percent for March to March comparison and up 5.7 percent year-to-date. This obviously covers more than residential furniture. Shipments were up 6.0 percent for March over March 2015 and up 5.7 percent year-to-date.



Executive Summary

As we were expecting based on conversations we had at the High Point Market, new orders fell 2 percent in March 2016 compared to March 2015. March 2015 orders were 2 percent higher than March 2014. New orders were down for some 56 percent of the participants in our recent survey of residential furniture manufacturers and distributors.

Year-to-date, new orders were just slightly less than the first quarter of last year, with the same percentage of participants reporting declines in orders.

Shipments were up 4 percent over March 2015 and were up 2 percent year-to-date. For the month, shipments were up for 61 percent of the participants but year-to-date, only 47 percent reported increased shipments.

With shipments exceeding orders, backlogs fell 5 percent from February and were down 8 percent from March 2015.

Receivable levels were 4 percent lower than March 2015 in spite of the increase in shipments for the month and year-to-date. We believe there are likely some timing issues involved and will wait to see if back in line next month.

Inventory levels fell 2 percent from February but remained 5 percent ahead of March 2015. These levels appear to be trending in the right direction.

Factory and warehouse employees and payrolls seem to be in line considering the mix of increased shipments and declining orders.

For the last couple of months, our conversations have been on one extreme or the other. Some saying business has really slowed down, but some saying

business is pretty good with some concerned about enough labor to cover orders. In addition, while most of the increases are in upholstery, a few are reporting good case goods numbers.

Most of our conversations have noted the sales at retail are soft. While the national reports for retail sales at furniture and home furnishings stores were up 3.4 percent year-to-date, we think there must be some increases in other than pure residential furniture sales (such as mattresses, etc.).

National

There were two surveys relating to consumer confidence and these two surveys had totally opposite results. The Conference Board's survey was very negative towards employment and business conditions, while the University of Michigan report was one of the most positive in some time. The real good news was this survey was very positive towards income levels and noted that buying plans had improved. It noted that the most favorable credit conditions were cited for vehicles since 2004 and for household durables since 2005.

Housing continued to post some nice gains in both existing home sales and new house sales. Housing starts were also very good. The gains for all of the housing results were pretty much in all four regions of the country except some shortages of properties in the West.

The new estimate on Gross Domestic Product showed a gain in the first quarter of 0.8 percent up from the initial estimate of 0.5 percent. The Leading Economic Indicators also increased in April following no change in March.

Final

We certainly hope the University of Michigan Survey is the correct one as we move into summer. As we seem to see every four years, the Presidential Election seems to have a negative impact on furniture sales and likely some of the Conference Board's survey. This particular election has seemed to be a bit "nastier" than normal creating more negative thoughts for consumers.

As we have just completed Memorial Day and its traditional sale weekend, let's hope that it was a productive weekend for all. As the time of year typically is a bit slower, hopefully the Memorial Day sales will give us a boost.



Estimated Business Activity (Millions of Dollars)						
	2016			2015		
	March	February	3 Months	March	February	3 Months
New Orders	2,255	2,077	6,362	2,297	2,090	6,387
Shipments	2,420	2,077	6,500	2,334	2,026	6,393
Backlog (R)	1,975	2,087		2,140	2,177	

Key Monthly Indicators			
	March 2016 From February 2016 Percent Change	March 2016 From March 2015 Percent Change	3 Months 2016 Versus 3 Months 2015 Percent Change
New Orders	+9	-2	—
Shipments	+15	+4	+2
Backlog	-5	-8	
Payrolls	+9	+4	+3
Employees	—	+2	
Receivables	+1	-4	
Inventories	-2	+5	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2015				
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
September	—	+3	+3	+4
October	+1	+7	—	+3
November	+4	+5	—	+2
December	+1	+5	-4	+2
2016				
January	+2	-1	—	+1
February	-1	+3	-1	+1
March	-2	+4	-8	+2