

Furniture Insights®

Monthly Results

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders increased 6 percent in August 2016 over August 2015. The 6 percent increase followed a 5 percent decrease reported last month. New orders in August 2015 were 3 percent higher than August 2014. While overall orders were up in total, we only had 44 percent of the participants report increases as a good number of participants reported significant increases, while a good number of participants reported only a slight decline.

Year-to-date, new orders were up 1 percent (actually about one-half percent). As in the monthly comparison, only 44 percent of the participants reported increased orders year-to-date, up from 39 percent reporting increases last month. Last year, the first eight months of 2015 were 5 percent higher than the first eight months of 2014.

Shipments and Backlogs

Shipments in August 2016 were also 6 percent higher than August 2015 after a 9 percent decrease reported last month. Just under one-half of the participants reported increased shipments. It could be that the increase this month, following the large decrease last month, was a timing issue.

Year-to-date, shipments were back to about even with the same period a year ago after a 1 percent decline reported last month. Some 42 percent of the participants reported increased shipments year-to-date.



Last year at this time, year-to-date shipments were up 7 percent over the previous year.

Backlogs fell 2 percent from July as shipments exceeded new orders. Backlogs were also 2 percent lower than August 2015 levels, the same as we reported last month. This compares to a 5 percent increase reported last year, comparing August 2015 to August 2014.

Furniture Insights®

A Monthly Newsletter

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Receivables and Inventories

Receivable levels were 4 percent lower in August 2016 versus August 2015, lower than we would have expected with the 6 percent increase in shipments. Receivables were 8 percent lower in July 2016 than they were in July 2015. The 3 percent increase from July would make more sense considering the increase in shipments, though the large increase in shipments from July relates more to the week off early in the month.

Inventories were down 1 percent from July 2015 and down 1 percent from last August as well. Inventories were up 2 percent last month so the decline is probably a good thing considering overall business conditions.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees was even with July 2016 and up 1 percent from last August. This increase was in line with the previous two months results.

Factory and warehouse payrolls were up 3 percent from August 2015. August payrolls were up 22 percent over July, due primarily to the vacation week in July. Year-to-date, payrolls were up 1 percent over the same period a year ago. These payrolls appear to be in line with current conditions.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index*[®], which had increased in September, declined in October. The Index now stands at 98.6 (1985=100), down from 103.5 in September. The Present Situation Index decreased from 127.9 to 120.6, while the Expectations

Index declined from 87.2 last month to 83.9.

“Consumer confidence retreated in October, after back-to-back monthly gains,” said Lynn Franco, Director of Economic Indicators at The Conference Board. “Consumers’ assessment of current business and employment conditions softened, while optimism regarding the short-term outlook retreated somewhat. However, consumers’ expectations regarding their income prospects in the coming months were relatively unchanged. Overall, sentiment is that the economy will continue to expand in the near-term, but at a moderate pace.”

Consumers’ appraisal of current conditions softened in October. Those saying business conditions are “good” decreased moderately from 27.7 percent to 26.2 percent, while those saying business conditions are “bad” increased from 15.8 percent to 17.7 percent. Consumers’ assessment of the labor market was also less positive than last month. Those stating jobs were “plentiful” decreased from 27.6 percent to 24.3 percent, while those claiming jobs are “hard to get” declined marginally from 22.3 percent to 22.1 percent.

Consumers’ optimism regarding the short-term outlook was somewhat less favorable in October. The percentage of consumers expecting business conditions to improve over the next six months decreased from 17.0 percent to 16.0 percent, while those expecting business conditions to worsen increased from 10.8 percent to 12.2 percent.

Consumers’ outlook for the labor market was also less optimistic than in September. The proportion expecting more jobs in the months ahead decreased from 15.7 percent to 13.1 percent. However, those anticipating fewer jobs

declined from 18.1 percent to 17.0 percent. The percentage of consumers expecting their incomes to increase was unchanged at 17.5 percent, while the proportion expecting a decline decreased from 10.4 percent to 9.8 percent.

Gross Domestic Product (GDP)

Real gross domestic product increased at an annual rate of 2.9 percent in the third quarter of 2016, according to the “advance” estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 1.4 percent.

The Bureau emphasized that the third-quarter advance estimate released today is based on source data that are incomplete or subject to further revision by the source agency.

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

The acceleration in real GDP growth in the third quarter reflected an upturn in private inventory investment, an acceleration in exports, a smaller decrease in state and local government spending, and an upturn in federal government spending. These were partly offset by a smaller increase in PCE, and a larger increase in imports.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.2 percent in September to 124.4 (2010 =

100), following a 0.2 percent decline in August, and a 0.5 percent increase in July.

“The U.S. LEI increased in September, reversing its August decline, which together with the pickup in the six-month growth rate suggests that the economy should continue expanding at a moderate pace through early 2017,” said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. “Housing permits, unemployment insurance claims, and the interest rate spread were the main components lifting the index in September. Overall, the strengths among the leading indicators are outweighing modest weaknesses in stock prices and the average workweek.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2 percent in September to 114.2 (2010=100), following no change in August, and a 0.3 percent increase in July.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.2 percent in September to 122.3 (2010=100), following a 0.2 percent increase in August.

Housing

Existing-Home Sales

Existing-home sales rebounded strongly in September and were propelled by sales from first-time buyers reaching a 34 percent share, which is a high not seen in over four years, according to the National Association of Realtors®. All major regions saw an increase in closings last month, and distressed sales fell to a new low of 4 percent of the market.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, hiked 3.2 percent to a seasonally adjusted annual rate of 5.47

million in September from a downwardly revised 5.30 million in August. After last month's gain, sales are at their highest pace since June (5.57 million) and are 0.6 percent above a year ago (5.44 million).

Single-family home sales increased 4.1 percent to a seasonally adjusted annual rate of 4.86 million in September from 4.67 million in August, and were 0.6 percent above the 4.83 million pace a year ago. The median existing single-family home price was \$235,700 in September, up 5.6 percent from September 2015.

Existing condominium and co-op sales declined 3.2 percent to a seasonally adjusted annual rate of 610,000 units in September from 630,000 in August, and were unchanged from a year ago. The median existing condo price was \$222,100 in September, which was 6.1 percent above a year ago.

Lawrence Yun, NAR chief economist, says the two-month slump in existing sales reversed course convincingly in September. "The home search over the past several months for a lot of prospective buyers, and especially for first-time buyers, took longer than usual because of the competition for the minimal amount of homes for sale," he said. "Most families and move-up buyers look to close before the new school year starts. Their diminishing presence from the market towards the end of summer created more opportunities for aspiring first-time homeowners to buy last month."

The median existing-home price for all housing types in September was \$234,200, up 5.6 percent from September 2015 (\$221,700). September's price increase marks the 55th consecutive month of year-over-year gains.

Total housing inventory at the end of September rose 1.5 percent to 2.04 million existing homes available for sale, but was still 6.8 percent lower than a year ago (2.19

million) and has now fallen year-over-year for 16 straight months. Unsold inventory is at a 4.5-month supply at the current sales pace, which is down from 4.6 months in August.

"Inventory has been extremely tight all year and is unlikely to improve now that the seasonal decline in listings is about to kick in," added Yun. "Unfortunately, there won't be much relief from new home construction, which continues to be grossly inadequate in relation to demand."

Matching the highest share since July 2012, first-time buyers were 34 percent of sales in September, which is up from 31 percent in August and 29 percent a year ago. First-time buyers represented 30 percent of sales in all of 2015.

"There's hope the leap in sales to first-time buyers can stick through the rest of the year and into next spring," explained Yun. "The market fundamentals – primarily consistent job gains and affordable mortgage rates – are there for the steady rise in first-timers needed to finally reverse the decline in the homeownership rate."

According to Freddie Mac, the average commitment rate (link is external) for a 30-year, conventional, fixed-rate mortgage inched up in September for the first time since March, rising to 3.46 percent from 3.44 percent in August. The average commitment rate for all of 2015 was 3.85 percent.

Regional

September existing-home sales in the Northeast leapt 5.7 percent to an annual rate of 740,000, which was unchanged from a year ago. The median price in the Northeast was \$261,600, which was 2.1 percent above September 2015.

In the Midwest, existing-home sales grew 3.9 percent to an annual rate of 1.32

million in September, and was 2.3 percent above a year ago. The median price in the Midwest was \$184,500, up 5.9 percent from a year ago.

Existing-home sales in the South in September ticked up 0.9 percent to an annual rate of 2.16 million, but were still 0.9 percent below September 2015. The median price in the South was \$204,000, up 6.6 percent from a year ago.

Existing-home sales in the West jumped 5.0 percent to an annual rate of 1.25 million in September, and were 1.6 percent higher than a year ago. The median price in the West was \$345,400, up 8.1 percent from September 2015.

New Residential Sales

Sales of new single-family houses in September 2016 were at a seasonally adjusted annual rate of 593,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 3.1 percent above the revised August rate of 575,000 and was 29.8 percent above the September 2015 estimate of 457,000.

The median sales price of new houses sold in September 2016 was \$313,500; the average sales price was \$377,700. The seasonally adjusted estimate of new houses for sale at the end of September was 235,000. This represents a supply of 4.8 months at the current sales rate.

New single-family house sales in September 2016 compared to September 2015 were up 60 percent in the Northeast, 33.3 percent in the Midwest, 25.7 percent in the South and 32.4 percent in the West.

Housing Starts

According to the U.S. Census Bureau and the Department of Housing and Urban Development, privately-owned housing

starts in September were at a seasonally adjusted annual rate of 1,047,000. This was 9.0 percent below the revised August estimate of 1,150,000 and was 11.9 percent below the September 2015 rate of 1,189,000.

Single-family housing starts in September were at a rate of 783,000; this was 8.1 percent above the revised August figure of 724,000. The September rate for units in buildings with five units or more was 250,000.

Single-family starts in September compared to September 2015 were up 7.1 percent in the Northeast, 5.4 percent in the Midwest, 4.4 percent in the South and 7.2 percent in the West.

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 \$459.8 billion, an increase of 0.6 percent from the previous month, and 2.7 percent above September 2015. Total sales for the July 2016 through September 2016 period were up 2.4 percent from the same period a year ago.

Retail trade sales were up 0.6 from August 2016, and up 2.2 percent from last year. Nonstore retailers were up 10.6 percent from September 2015, while food services and drinking places were up 6.1 percent from last year.

Sales at furniture and home furnishings stores on an adjusted basis were up 2.7 percent in September over September 2015. Year-to-date, sales at these stores were up 3.8 percent over the same period a year ago.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3 percent in September 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 1.5 percent before seasonal adjustment.

Increases in the shelter and gasoline indexes were the main causes of the rise in the all items index. The gasoline index rose 5.8 percent in September and accounted for more than half of the all items increase. The shelter index increased 0.4 percent, its largest increase since May.

The energy index increased 2.9 percent, its largest advance since April. Along with the gasoline index, other energy component indexes also rose. The index for food, in contrast, was unchanged for the third consecutive month, as the food at home index continued to decline.

Employment

Total nonfarm payroll employment increased by 156,000 in September, and the unemployment rate was little changed at 5.0 percent, according to the report from the U.S. Bureau of Labor Statistics. Employment gains occurred in professional and business services and in health care.

The unemployment rate, at 5.0 percent, and the number of unemployed persons, at 7.9 million, changed little in September. Both measures have shown little movement, on net, since August of last year.

The number of persons unemployed less than 5 weeks increased by 284,000 to 2.6 million in September. The number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged at 2.0 million and accounted for 24.9 percent of the unemployed.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in September decreased \$0.3 billion or 0.1 percent to \$227.3 billion, according to the U.S. Census Bureau. This decrease, down following two consecutive monthly increases, followed a 0.3 percent August increase. Excluding transportation, new orders increased 0.2 percent. Excluding defense, new orders increased 0.7 percent.

Transportation equipment, also down following two consecutive monthly increases, drove the decrease, \$0.6 billion or 0.8 percent.

Shipments of manufactured durable goods in September, up three of the last four months, increased \$2.0 billion or 0.8 percent.

Transportation equipment, up following two consecutive monthly decreases, led the increase, \$1.8 billion or 2.3 percent.



Executive Summary

The results of our recent survey of residential furniture manufacturers and distributors were a bit surprising. After new orders in July were 5 percent lower than July 2015 orders, August 2016 orders increased 6 percent over August 2015 orders. We think that maybe there was a timing issue between the two months.

The year-to-date results seem to tell more of the story for the year. Year-to-date, new orders were up 1 percent over the first eight months of 2015. Only 44 percent of the participants reported increased orders over last year. In 2015, new orders were up 5 percent over the first eight months of 2014.

Shipments in August were up 6 percent over August 2015, following a 9 percent decrease reported in July. This increase brought shipments year-to-date back to about even with the same period a year ago. Only 42 percent of the participants reported increased shipments year-to-date.

Backlogs fell 2 percent from July and were also 2 percent lower than August 2015. August 2015 backlogs were 5 percent higher than August 2014 levels.

Receivable levels continue to be in good shape, down 4 percent from a year ago. Considering shipments year-to-date are flat, the decrease in receivables indicates they are in good shape. Inventories also appear to be at good levels, down 1 percent from last year and down 1 percent from July.

Factory and warehouse payrolls are up 1 percent over last year-to-date. The number of factory and warehouse employees was also up 1 percent over last

year. Each of these comparisons seem very much in line with current business conditions.

National

Consumer confidence fell in October after an increase reported in September and August. The report indicated that ‘consumers assessment of current business and employment conditions softened while optimism regarding the short term outlook retreated somewhat.’ The advance estimates for Gross Domestic Product (GDP) indicated a solid 2.9 percent growth rate for the third quarter of 2016. The Conference Board’s Leading Economic Index also increased 0.2 percent after a 0.2 percent decline in August.

Housing

Total existing home sales increased 3.2 percent in September while single-family home sales increased 4.1 percent. All four regions of the country reported increased sales, with the Northeast leading the way with a 5.7 percent increase.

Sales of new single-family houses in September increased 3.1 percent over August and were 29.8 percent above September 2015. Compared to September 2015, all four regions of the country were up substantially.

Privately-owned housing starts were down 9 percent from August and were also down 11.9 percent from September 2015. But single-family housing starts were up 8.1 percent over August and up 5.4 percent from September 2015. Single-family starts were up in all four regions of the country.

Other

Retail and food services sales in September were up 0.6 percent from August and 2.7 percent over September

2015. Retail trade sales were also up 0.6 percent from August and up 2.2 percent over September 2015. Sales at furniture and home furnishings stores were up 2.7 percent over September 2015 and up 3.8 percent year-to-date according to the advance reports from the Census Bureau.

The Consumer Price Index increased 0.3 percent in September. Over the last twelve months, the all items index rose 1.5 percent, up from 1.1 percent reported last month. Increases in shelter and gasoline indexes were reported as the main cause for the increase.

156,000 jobs were added in September. The unemployment rate was little changed at 5.0 percent.

Thoughts

Overall, as we have noted before, most of the indicators that we have tracked are good for the industry. While not robust, the stock market has performed reasonably well. Consumer Confidence seems to be the main thing holding us back.

We talked to quite a number of people at the High Point Market and most all agreed that the negative political campaigns are the main cause for lack of confidence. In addition, at many places, there is little advertising space available and any time available away from politics, is extremely expensive. But most of the folks we talked with seemed to agree that while business is not great, it is not at all bad either. It just isn't consistent.

That said, the Market was interesting to us. Friday and Saturday most of our talks indicated that "the big guys" were all here Wednesday to Saturday. But by Saturday night, we were not feeling much of a buzz. Then Sunday came and it was like someone flipped a switch. Sunday, Monday and most of Tuesday seemed to

have a great feeling with seemingly really good "traffic" and the mood really picked up.

Overall, we thought the Market was a good one. As best we could figure, it was like people realized the elections would be over soon, all the negative ads would go away and we would get back to business. So it appeared that buyers figured they need to be ready with fresh new product. We hope your was a good one—buyer or seller.



Estimated Business Activity (Millions of Dollars)						
	2016			2015		
	August	July	8 Months	August	July	8 Months
New Orders	2,216	1,904	17,028	2,083	2,014	16,940
Shipments	2,255	1,910	17,393	2,123	2,110	17,395
Backlog (R)	1,864	1,902		1,892	1,912	

Key Monthly Indicators			
	August 2016 From July 2016 Percent Change	August 2016 From August 2015 Percent Change	8 Months 2016 Versus 8 Months 2015 Percent Change
New Orders	+17	+6	+1
Shipments	+25	+6	-
Backlog	-2	-2	
Payrolls	+22	+3	+1
Employees	-	+1	
Receivables	+3	-4	
Inventories	-1	-1	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2015				
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
April	-3	-3	-7	-
May	+2	-1	-6	+2
June	+5	+2	-5	+1
July	-5	-9	-2	+1
August	+6	+6	-2	+1