SMITH LEONARD
Accountants & Consultants

December 2016

Furniture Insights®

Monthly Results

New Orders

New orders in October 2016 were 1 percent higher than new orders in October 2015, according to our latest survey of residential furniture manufacturers and distributors. October 2015 orders were 1 percent higher than October 2014. The 1 percent increase in October 2016 followed an unusually higher order rate of 14 percent reported last month with the September results.

Year-to-date, new orders were up 2 percent over the first 10 months of 2015. Last year at this time, new orders were up 4 percent year-to-date. Approximately 43 percent of the participants have reported increased orders year-to-date.

Shipments and Backlogs

Shipments in October 2016 were 6 percent lower than October 2015 after a 7 percent increase posted in September. October 2015 shipments were 7 percent higher than October 2014. Shipments in October were lower for almost 82 percent of the participants.

Year-to-date, shipments were basically flat with the same period a year ago.

Backlogs increased 4 percent over September as new orders exceeded shipments. Backlogs were 1 percent higher than October 2015. October 2015 backlogs were basically flat compared to October 2014.

Receivables and Inventories

Receivable levels were 2 percent higher than October 2015 in spite of the decline in shipments. Yet with year-to-date shipments flat with 2015, the 2 percent increase is not really a concern at this point as timing can impact those results in any given month.

Inventories were 2 percent lower than October 2015 and were flat compared to September 2016. Based on current business conditions, the inventory levels appear to be in good shape.

Furniture Insights®
A Monthly Newsletter

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Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees were basically flat with October 2015 levels, the same as reported last month. The number of employees was also even with September 2016.

Factory and warehouse payrolls in October 2016 were down 1 percent from October 2015. Year-to-date, payrolls were 1 percent higher than the first 10 months of 2015. Overall, the number of employees and payrolls seem to reflect current business conditions.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®*, which had increased considerably in November, posted another gain in December. The Index now stands at 113.7 (1985=100), up from 109.4 in November. The Expectations Index increased sharply from 94.4 to 105.5, but the Present Situation Index decreased from 132.0 last month to 126.1.

"Consumer Confidence improved further in December, due solely to increasing Expectations which hit a 13-year high (Dec. 2003, 107.4)," said Lynn Franco, Director of Economic Indicators at The Conference Board. "The post-election surge in optimism for the economy, jobs and income prospects, as well as for stock prices, which reached a 13-year high, was most pronounced among older consumers. Consumers' assessment of current conditions, which declined, still suggests that economic growth continued through the final months of 2016. Looking ahead to 2017, consumers' continued optimism will depend on whether or not their expectations are realized."

Consumers' assessment of current conditions declined in December. Those saying business conditions are "good" decreased slightly from 29.7 percent to 29.2 percent, while those saying business conditions are "bad" increased from 15.2 percent to 17.3 percent. Consumers' appraisal of the labor market was less positive than last month. Those stating jobs are "plentiful" declined from 27.8 percent to 26.9 percent, while those claiming jobs are "hard to get" increased from 21.2 percent to 22.5 percent.

Consumers' short-term outlook improved considerably in December. Those expecting business conditions to improve over the next six months increased from 16.4 percent to 23.6 percent, while those expecting business conditions to worsen declined from 9.9 percent to 8.7 percent.

Consumers' outlook for the labor market also improved markedly. The proportion expecting more jobs in the months ahead increased from 16.1 to 21.0 percent. However, those anticipating fewer jobs also increased, from 13.5 percent to 14.0 percent. The percentage of consumers expecting their incomes to increase rose from 17.4 percent to 21.0 percent, while the proportion expecting a decrease fell moderately, from 9.2 percent to 8.6 percent.

University of Michigan Surveys of Consumers

The Surveys of Consumers University of Michigan report for December noted that "As unexpected as Trump's election, consumers expressed much more positive economic expectations following his victory. While the surge in confidence ended by mid December, it nonetheless led to the highest level of the Sentiment Index since January 2004. An all-time record number of consumers spontaneously mentioned the expected favorable impact of Trump's policies on the economy. Consumers anticipated that a stronger economy would create more jobs, although expected wage gains were quite meager. Smaller income gains were offset by record low inflation expectations. Overall, after a contentious election, to a surprising degree, consumers have given the incoming president the advantage of economic optimism and confidence in his policies."

Surveys of Consumers chief economist, Richard Curtin said: "Needless to say, the record gain in consumer confidence was based on anticipated policy changes, with the specific details as yet unknown. On the positive side, such favorable expectations could help jump-start growth before the actual enactment of new policies. A potential drawback is that these favorable expectations will act as a much higher performance standard that people will use to judge the effectiveness of Trump's policies. More substantial wage gains are critical to the success of Trump's expansive fiscal policies as well as the shift toward less expansive monetary policies. Until more is known, the 2017 real consumption forecast is 2.7 percent."

Consumers held the most favorable personal financial outlook of the past ten years. An improved financial situation during the year ahead was expected by 40 percent of all consumers in December, the highest level since 2006. The gains were largely due to recent income increases, which were also the most positive since 2006. Expected annual income growth retreated to 1.5 percent from 1.8 percent last month. The smaller expected income gains were offset by declines in inflation expectations, which fell to the lowest levels since the Great Recession.

In contrast to the expected improvements in jobs and personal finances, consumers did not express more positive attitudes toward vehicle and home buying conditions. Higher interest rates on purchases of vehicles and higher mortgage rates have limited the same type of resurgence in these buying plans. Importantly, the degree of resistance to interest rate increases depends on improvements in wage expectations above their current low levels.

The Sentiment Index was 98.2 in the December 2016 survey, up from 93.8 in November and October's pre-election reading of 87.2, reaching the highest level since January 2004. Most of the gains were in the Expectations Index, which rose to 89.5, up from last month's 85.2 and October's 76.8. The Current Conditions Index rose to 111.9 in December from 107.3 in November and October's 103.2.

Gross Domestic Product (GDP)

Real gross domestic product increased at an annual rate of 3.5 percent in the third quarter of 2016, according to the "third" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 1.4 percent. In the second estimate, the increase in real GDP was 3.2 percent.

With this third estimate for the third quarter, nonresidential fixed investment, personal consumption expenditures (PCE), and state and local government spending increased more than previously estimated, but the general picture of economic growth remains the same.

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

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. was unchanged in November, remaining at 124.6 (2010 = 100), following a 0.1 percent increase in October, and a 0.3 percent increase in September.

"The U.S. LEI continued on an upward trend through 2016, although at a moderate pace of growth," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "The underlying trends in the LEI suggest that the economy will continue expanding into the first half of 2017, but it's unlikely to considerably accelerate. Although the industrial and construction indicators held the U.S. LEI back in November, the weakness was offset by improvements in the interest rate spread, initial unemployment insurance claims, and stock prices."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1 percent in November to 114.6 (2010=100), following a 0.2 percent increase in October, and a 0.2 percent increase in September.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.3 percent in November to 123.2 (2010=100), following a 0.2 percent increase in October, and a 0.2 percent increase in September.

Housing

Existing-Home Sales

A big surge in the Northeast and a smaller gain in the South pushed existing-home sales up in November for the third consecutive month, according to the National Association of Realtors®.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, rose 0.7 percent to a seasonally adjusted annual rate of 5.61 million in November from a downwardly revised 5.57 million in October. November's sales pace is now the highest since February 2007 (5.79 million) and is 15.4 percent higher than a year ago (4.86 million).

Single-family home sales declined 0.4 percent to a seasonally adjusted annual rate of 4.95 million in November from 4.97 million in October, but were still 16.2 percent above the 4.26 million pace a year ago. The median existing single-family home price was $236,500 in November, up 6.8 percent from November 2015.

Existing condominium and co-op sales jumped 10.0 percent to a seasonally adjusted annual rate of 660,000 units in November, and are now 10.0 percent above a year ago. The median existing condo price was $222,600 in November, which was 5.8 percent above a year ago.

Lawrence Yun, NAR chief economist, says it's been an outstanding three-month stretch for the housing market as 2016 nears the finish line. "The healthiest job market since the Great Recession and the anticipation of some buyers to close on a home before mortgage rates acutely rose from their historically low level have combined to drive sales higher in recent months," he said. "Furthermore, it's no coincidence that home shoppers in the Northeast — where price growth has been tame all year — had the most success last month."

The median existing-home price for all housing types in November was $234,900, up 6.8 percent from November 2015 ($220,000). November's price increase marks the 57th consecutive month of year-over-year gains.

Total housing inventory at the end of November dropped 8.0 percent to 1.85 million existing homes available for sale, and was 9.3 percent lower than a year ago (2.04 million) and has fallen year-over-year for 18 straight months. Unsold inventory is at a 4.0-month supply at the current sales pace, which is down from 4.3 months in October.

"Existing housing supply at the beginning of the year was inadequate and is now even worse heading into 2017," added Yun. "Rental units are also seeing this shortage. As a result, both home prices and rents continue to far outstrip incomes in much of the country."

According to Freddie Mac, the average commitment rate (link is external) for a 30-year, conventional, fixed-rate mortgage leaped to 3.77 percent in November from 3.47 percent in October (highest rate since January at 3.87 percent). The average commitment rate for all of 2015 was 3.85 percent.

First-time buyers were 32 percent of sales in November, which was down from 33 percent in October but up from 30 percent a year ago. NAR's 2016 *Profile of Home Buyers and Sellers* — released in November — revealed that the annual share of first-time buyers was 35 percent (32 percent in 2015), which is the highest since 2013 (38 percent).

Regional

November existing-home sales in the Northeast hiked 8.0 percent to an annual rate of 810,000, and was 15.7 percent above a year ago. The median price in the Northeast was $263,000, which was 3.3 percent above November 2015.

In the Midwest, existing-home sales decreased 2.2 percent to an annual rate of 1.33 million in November, but were still 18.8 percent above a year ago. The median price in the Midwest was $180,300, up 6.5 percent from a year ago.

Existing-home sales in the South in November rose 1.4 percent to an annual rate of 2.22 million, and were 11.6 percent above November 2015. The median price in the South was $206,900, up 9.2 percent from a year ago.

Existing-home sales in the West declined 1.6 percent to an annual rate of 1.25 million in November, but were 19.0 percent higher than a year ago. The median price in the West was $345,400, up 8.5 percent from November 2015.

New Residential Sales

Sales of new single-family houses in November 2016 were at a seasonally adjusted annual rate of 592,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 5.2 percent above the revised October rate of 563,000 and was 16.5 percent above the November 2015 estimate of 508,000.

The median sales price of new houses sold in November 2016 was $305,400; the average sales price was $359,900. The seasonally adjusted estimate of new houses for sale at the end of November was 250,000. This represents a supply of 5.1 months at the current sales rate.

New house sales comparing November 2016 to November 2015 were up 22.2 percent in the Northeast, 39.4 percent in the Midwest, 13.4 percent in the South and 10.8 percent in the West.

Housing Starts

The U.S. Census Bureau and the Department of Housing and Urban Development jointly announced that privately-owned housing starts in November were at a seasonally adjusted annual rate of 1,090,000. This was 18.7 percent below the revised October estimate of 1,340,000 and was 6.9 percent below the November 2015 rate of 1,171,000.

Single-family housing starts in November were at a rate of 828,000; this was 4.1 percent below the revised October figure of 863,000. Single-family starts comparing November 2016 to November 2015 were down 7.6 percent in the Northeast and 2.7 percent in the West. Starts were up 33 percent in the Midwest and up 3.8 percent in the South.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for November, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $465.5 billion, an increase of 0.1 percent from the previous month, and 3.8 percent above November 2015. Total sales for the September 2016 through November 2016 period were up 3.7 percent from the same period a year ago.

Retail trade sales were virtually unchanged from October 2016, and up 3.6 percent from last year. Nonstore retailers were up 11.9 percent from November 2015, while health and personal care stores retailers were up 6.2 percent from last year.

Sales at furniture and home furnishings stores were up 4.1 percent over November 2015 and were up 3.9 percent year-to-date.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2 percent in November 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 rose 1.7 percent before seasonal adjustment.

The shelter and gasoline indexes continued to rise in November, and were again the main reasons for the seasonally adjusted all items increase. The shelter index advanced 0.3 percent in November, while the gasoline index increased 2.7 percent.

The food index was unchanged in November, as the index for food at home fell 0.1 percent, its seventh consecutive decline. The energy index increased 1.2 percent, although gasoline was the only major energy component index to increase over the month.

The index for all items less food and energy rose 0.2 percent in November after rising 0.1 percent in October. The shelter index accounted for most of the increase, but the indexes for motor vehicle insurance, education, communication, and used cars and trucks also rose. The medical care index was unchanged over the month. Several indexes declined in November, including apparel, household furnishings and operations, airline fares, and new vehicles.

The all items index rose 1.7 percent for the 12 months ending November; the 12-month all items increase has been rising since it was 0.8 percent in July. The index for all items less food and energy rose 2.1 percent for the 12 months ending November, and the energy index increased 1.1 percent. In contrast, the food index declined 0.4 percent over the last 12 months.

Employment

The unemployment rate declined to 4.6 percent in November, and total nonfarm payroll employment increased by 178,000, according to the report from the U.S. Bureau of Labor Statistics. Employment gains occurred in professional and business services and in health care.

In November, the unemployment rate decreased by 0.3 percentage point to 4.6 percent, and the number of unemployed persons declined by 387,000 to 7.4 million. Both measures had shown little movement, on net, from August 2015 through October 2016.

Durable Goods Orders and Factory Shipments

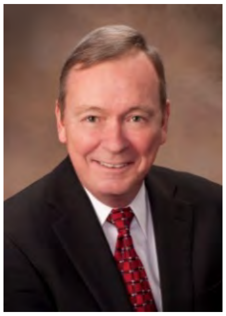
The U.S. Census Bureau announced that new orders for manufactured durable goods in November decreased $11.0 billion or 4.6 percent to $228.2 billion. This decrease, down following four consecutive monthly increases, followed a 4.8 percent October increase. Excluding transportation, new orders increased 0.5 percent. Excluding defense, new orders decreased 6.6 percent.

Transportation equipment, also down following four consecutive monthly increases, drove the decrease, $11.7 billion or 13.2 percent.

Shipments of manufactured durable goods in November, up two of the last three months, increased $0.2 billion or 0.1 percent to $234.2 billion. This followed a 0.1 percent October decrease.

Primary metals, also up two of the last three months, drove the increase, $0.3 billion or 1.7 percent to $18.0 billion.

According to the final report for October, new orders for furniture and related products increased 1.6 percent in October over October 2015. Year-to-date, orders were up 4.7 percent. Shipments in this category were up 0.6 percent over October 2015 and up 3.8 percent year-to-date.



Executive Summary

Following a 14 percent increase in new orders in September 2016 versus September 2015, the results of our latest survey of residential furniture manufacturers and distributors fell back in line with expectations based on most conversations we were hearing in October. October 2016 new orders were up 1 percent over October 2015. October 2015 orders were 1 percent higher than 2014. Year-to-date, new orders remained 2 percent higher than the same period a year ago.

The results for October were very mixed. Less than one-half of the participants reported increased order rates with several participants reporting double digit declines in orders.

Shipments in October fell 6 percent from October 2015 when they were 7 percent higher than October 2014. This brought year-to-date shipments back to even with the first 10 months of 2015. As with orders, the results were very mixed with considerably less than one-half of the participants reporting increased shipments.

Receivable levels increased 2 percent over last October. With shipments for the month down from last year, this increase was a bit odd but with year-to-date shipments flat, the small increase doesn't appear to be too far out of line.

Inventories fell 2 percent from last October and were flat with September 2016. Overall, inventories seem very much in line with current conditions.

Housing

November housing results were again positive. Total existing home sales in November were up a seasonally adjusted annual rate of 0.7 percent over October and 15.4 percent higher than November 2015. According to the report, November's sales pace was the highest since February 2007.

Single-family sales fell slightly from October but were still 16.2 percent higher than November 2015 with the median price for these sales up 6.8 percent over November 2015.

Housing starts fell with single-family starts down 4.1 percent from October 2016. Single-family starts were down in the Northeast and West but were up in the South and Midwest.

Other

Moving from October to November, as with housing, other reports were positive as well. Advance estimates for retail and food services sales were up 0.1 percent from October and 3.8 percent over November 2015. Retail trade sales were up 3.6 percent over last year. Sales at furniture and home furnishings stores were up 4.1 percent over November 2015 and were up 3.9 percent year-to-date.

The Consumer Price Index increased 0.2 percent in November with shelter and gasoline indexes leading the increase. Over the last 12 months, the all items index increased 1.7 percent.

Nonfarm payroll employment rose by 178,000 in November. The unemployment rate fell to 4.6 percent from 4.9 percent reported last month. Employment gains occurred in professional and business services and in health care.

Consumer Confidence

The University of Michigan Surveys of Consumers report was one of the most positive in some time. The report said "As unexpected as Trump's election, consumers expressed much more positive economic expectations following his victory." The report placed the Consumer Sentiment Index at 98.2, the highest level since January 2004. It is worth reading to excerpts from the full report in the body of this month's full report.

While not quite as positive as the University of Michigan report, The Conference Board Consumer Confidence Index gained ground in December after another gain in November. The Expectations Index improved to 105.5 from 94.4 while the Present Situation Index fell slightly.

Lynn Franco, Director of Economic Indicators said "The post-election surge in optimism for the economy, jobs and income prospects, as well as for stock prices, which reached a 13-year high, was most pronounced among older consumers.

Thoughts

Many of the folks we have talked with have said that business seemed to really pick up after the election. This has been true in conversations outside the industry as well. Certainly not true for everyone, but there has clearly been some optimism since the election. Not to try to be political, most seem to feel that the fact that it is over was as important as who may have won.

One Final Thought

In an August 2016 Furniture Today "Opinion Today" by Cindy Hodnett, she said "should a sofa – used every day by most members of a household for years – cost less than a cell phone?" Just something to think about as we keep trying to go low in too many cases.

With that said, here's wishing all of you a very happy, prosperous and safe 2017.

Estimated Business Activity (Millions of Dollars)						
	2016			2015		
	October	September	10 Months	October	September	10 Months
New Orders	2,232	2,603	21,863	2,221	2,275	21,436
Shipments	2,039	2,270	21,702	2,169	2,139	21,703
Backlog (R)	2,141	2,059		2,120	2,068	

Key Monthly Indicators			
	October 2016 From September 2016 Percent Change	October 2016 From October 2015 Percent Change	10 Months 2016 Versus 10 Months 2015 Percent Change
New Orders	-15	+1	+2
Shipments	-10	-6	–
Backlog	+4	+1	
Payrolls	-7	-1	+1
Employees	–	–	
Receivables	+2	+2	
Inventories	–	-2	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2015				
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
September	+14	+7	+3	–
October	+1	-6	+1	–