SMITH LEONARD
Accountants & Consultants

May 2017

Furniture Insights®

Monthly Results

New Orders

New orders in March 2017 increased 12 percent over new orders in March 2016 after increasing 4 percent in February versus February 2016, according to our latest survey of residential furniture manufacturers and distributors. Orders in March were 17 percent ahead of February 2017, due somewhat to more working days in March. Some 77 percent of our participants reported increased orders in March, one of the highest percentages reported lately.

The increase in March brought the year-to-date increase in orders to 6 percent over the first quarter of 2016. As with the results for the month, new orders increased for 77 percent of the participants year-to-date.

Shipments and Backlogs

Shipments in March were up 6 percent over March 2016 with some 71 percent of the participants reporting increased shipments for the month. Shipments were up 17 percent from February due most likely to more shipping days in the month.

Year-to-date, shipments were up 4 percent over the first quarter of 2016. Approximately 69 percent of the participants reported increased shipments for the quarter.

Backlogs were basically even with February but were up 8 percent over March 2016.

Receivables and Inventories

Receivables were up 6 percent in March 2017 versus March 2016, in line with the increase in shipments for the month. They were up only 3 percent over February in spite of the 17 percent increase in shipments.

Inventories were down 1 percent from March 2016 as well as down 1 percent from February 2017. With the increase in orders and shipments, inventories appear to be in good shape.

Furniture Insights®
A Monthly Newsletter

Smith Leonard PLLC

Kenneth D. Smith, CPA
Mark S. Laferriere, CPA

4035 Premier Drive, Suite 300
High Point, North Carolina 27265
Telephone (336) 883-0181 | facsimile: (336) 841-8764

Factory and Warehouse Employees and Payroll

Factory and warehouse payrolls were down 1 percent from March 2016. The 11 percent increase over February 2017 was likely due to the increased working days in March versus February. Year-to-date, factory and warehouse payrolls were up only 1 percent.

The number of factory and warehouse employees fell 1 percent from February and were down 2 percent from March 2016. So overall, the employment situation appears to be in very good shape.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®*, which had decreased in April, declined slightly in May. The Index now stands at 117.9 (1985=100), down from 119.4 in April. The Present Situation Index increased marginally from 140.3 to 140.7, while the Expectations Index declined from 105.4 last month to 102.6 in May.

"Consumer confidence decreased slightly in May, following a moderate decline in April," said Lynn Franco, Director of Economic Indicators at The Conference Board. "However, consumers' assessment of present-day conditions held steady, suggesting little change in overall economic conditions. Looking ahead, consumers were somewhat less upbeat than in April, but overall remain optimistic that the economy will continue expanding into the summer months."

Consumers' appraisal of current conditions held steady in May. Those saying business conditions are "good" edged down from 30.8 percent to 29.4 percent, but those saying business conditions are "bad" was unchanged at 13.7 percent. Consumers' assessment of the labor market also remained positive. Those stating jobs are "plentiful" declined marginally from 30.3 percent to 29.9 percent, however, those claiming jobs are "hard to get" decreased from 19.4 percent to 18.2 percent.

Consumers were less optimistic about the short-term outlook in May. The percentage of consumers expecting business conditions to improve over the next six months decreased from 25.1 percent to 21.3 percent, however, those expecting business conditions to worsen declined marginally from 10.4 percent to 10.1 percent.

University of Michigan Surveys of Consumers

The Surveys of Consumers from the University of Michigan had some slightly different results. According to this survey, consumer sentiment has continued to move along the high plateau established following Trump's election. The May 2017 figure was virtually unchanged from the April reading, and nearly identical with the December to May average of 97.3. Moreover, the partisan divide between Democrats and Republicans has also remained largely unchanged, with the first expecting a recession and the other more robust economic growth. Despite the expected bounce back in spending in the current quarter, personal consumption is expected to advance by 2.3 percent in 2017, although this is based on averages across the political divide, which has never been as extreme as it is currently.

Surveys of Consumers chief economist, Richard Curtin said: "How long will economic expectations be dominated by partisanship? Unlike differences in expectations across age, education, or income groups, which

usually reflect actual differences in prospects for employment and income expectations, for example, partisanship is reflected in economic policy preferences. Since no major policies, such as healthcare, taxes, or infrastructure spending have yet been adopted, the partisan divide may reflect differences in policy preferences expressed as expected economic outcomes. Thus, the extreme partisan divide may persist until passage is deemed either inevitable or impossible. While extremes may well narrow, it is unlikely that the impact of partisanship on economic expectations will disappear."

More consumers reported an improved financial situation in May than anytime in the past dozen years. The financial strength was due to gains in incomes as well as gains in household wealth driven by rising stock prices and home values. Few consumers complained about inflation eroding their living standards, and the highest proportion in a decade expected inflation adjusted income gains during the year ahead.

Gross Domestic Product (GDP)

Real gross domestic product (GDP) increased at an annual rate of 1.2 percent in the first quarter of 2017, according to the "second" estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 2.1 percent.

In the advance estimate released last month, the increase in real GDP was 0.7 percent. With this second estimate for the first quarter, the general picture of economic growth remains the same; increases in nonresidential fixed investment and in personal consumption expenditures (PCE) were larger and the decrease in state and local government spending was smaller than previously estimated. These revisions were partly offset by a larger decrease in private inventory investment.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.3 percent in April to 126.9 (2010 = 100), following a 0.3 percent increase in March, and a 0.5 percent increase in February.

"The recent trend in the U.S. LEI, led by the positive outlook of consumers and financial markets, continues to point to a growing economy, perhaps even a cyclical pickup," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "First quarter's weak GDP growth is likely a temporary hiccup as the economy returns to its long-term trend of about 2 percent. While the majority of leading indicators have been contributing positively in recent months, housing permits followed by average workweek in manufacturing have been the sources of weakness among the U.S. LEI components."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.3 percent in April to 115.2 (2010=100), following a 0.3 percent increase in March, and a 0.1 percent increase in February.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.3 percent in April to 124.1 (2010=100), following a 0.1 percent increase in March and a 0.2 percent increase in February.

Housing

Existing-Home Sales

According to the National Association of Realtors®, stubbornly low supply levels held down existing-home sales in April and also pushed the median number of days a home was on the market to a new low of 29 days.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, dipped 2.3 percent to a seasonally adjusted annual rate of 5.57 million in April from a downwardly revised 5.70 million in March. Despite last month's decline, sales were still 1.6 percent above a year ago and at the fourth highest pace over the past year.

Single-family home sales decreased 2.4 percent to a seasonally adjusted annual rate of 4.95 million in April from 5.07 million in March, but were still 1.6 percent above the 4.87 million pace a year ago. The median existing single-family home price was $246,100 in April, up 6.1 percent from April 2016.

Existing condominium and co-op sales declined 1.6 percent to a seasonally adjusted annual rate of 620,000 units in April, but were still 1.6 percent higher than a year ago. The median existing condo price was $234,600 in April, which was 5.6 percent above a year ago.

Lawrence Yun, NAR chief economist, says every major region except for the Midwest saw a retreat in existing sales in April. "Last month's dip in closings was somewhat expected given that there was such a strong sales increase in March at 4.2 percent, and new and existing inventory is not keeping up with the fast pace homes are coming off the market," he said. "Demand is easily outstripping supply in most of the country and it's stymieing many prospective buyers from finding a home to purchase."

The median existing-home price for all housing types in April was $244,800, up 6.0 percent from April 2016 ($230,900). April's price increase marks the 62nd straight month of year-over-year gains.

Total housing inventory at the end of April climbed 7.2 percent to 1.93 million existing homes available for sale, but was still 9.0 percent lower than a year ago (2.12 million) and has fallen year-over-year for 23 consecutive months. Unsold inventory is at a 4.2-month supply at the current sales pace, which was down from 4.6 months a year ago.

Properties typically stayed on the market for 29 days in April, which was down from 34 days in March and 39 days a year ago, and surpasses last May (32 days) as the shortest timeframe since NAR began tracking in May 2011.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage declined for the first time in six months, dipping to 4.05 percent in April from 4.20 percent in March. The average commitment rate for all of 2016 was 3.65 percent.

Matching the highest percentage since last September, first-time buyers were 34 percent of sales in April, which was up from 32 percent both in March and a year ago. NAR's 2016 *Profile of Home Buyers and* Sellers – released in late 2016 – revealed that the annual share of first-time buyers was 35 percent.

Regional

April existing-home sales in the Northeast dipped 2.7 percent to an annual rate of 730,000, and were 2.7 percent below a year ago. The median price in the Northeast was $267,700, which was 1.6 percent above April 2016.

In the Midwest, existing-home sales increased 3.8 percent to an annual rate of 1.36 million in April, but were 0.7 percent below a year ago. The median price in the Midwest was $194,500, up 7.8 percent from a year ago.

Existing-home sales in the South in April fell 5.0 percent to an annual rate of 2.30 million, but were still 3.6 percent above April 2016. The median price in the South was $217,700, up 7.9 percent from a year ago.

Existing-home sales in the West declined 3.3 percent to an annual rate of 1.18 million in April, but were still 3.5 percent above a year ago. The median price in the West was $358,600, up 6.8 percent from April 2016.

New Residential Sales

Sales of new single-family houses in April 2017 were at a seasonally adjusted annual rate of 569,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 11.4 percent below the revised March rate of 642,000 but was 0.5 percent above the April 2016 estimate of 566,000.

The median sales price of new houses sold in April 2017 was $309,200. The average sales price was $368,300.

The seasonally-adjusted estimate of new houses for sale at the end of April was 268,000. This represents a supply of 5.7 months at the current sales rate.

Sales were mixed in the four regions compared to April 2016, with sales up 19.7 percent in the Midwest and 4.1 percent in the South, while sales were down 5.1 percent in the Northeast and 13.7 percent in the West.

Housing Starts

The U.S. Census Bureau and the Department of Housing and Urban Development announced that privately-owned housing starts in April were at a seasonally adjusted annual rate of 1,172,000. This was 2.6 percent below the revised March estimate of 1,203,000, but was 0.7 percent above the April 2016 rate of 1,164,000. Single-family housing starts in April were at a rate of 835,000; this was 0.4 percent above the revised March figure of 832,000.

Compared to April 2016, single-family housing starts were up in the South 7.3 percent and West 29.9 percent but were down 16.4 percent in the Northeast and 0.8 percent in the Midwest.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for April 2017, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $474.9 billion, an increase of 0.4 percent from the previous month, and 4.5 percent above April 2016. Total sales for the February 2017 through April 2017 period were up 4.7 percent from the same period a year ago.

Retail trade sales were up 0.4 percent from March 2017, and up 4.5 percent from last year. Gasoline stations sales were up 12.3 percent from April 2016, while nonstore retailers were up 11.9 percent from last year.

Sales at furniture and home furnishings stores were off slightly in April from March (0.5 percent) but were up 3.8 percent from April 2016, moving the year-to-date sales to an increase of 2.2 percent over last year.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2 percent in April 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 2.2 percent before seasonal adjustment.

Increases in indexes for shelter, energy, tobacco, and food all contributed to the monthly increase in the all items index. The energy index rose 1.1 percent, with all 3 of its major component indexes rising. The food index rose 0.2 percent, mostly due to a sharp increase in the index for fresh vegetables.

The index for all items less food and energy rose 0.1 percent in April after declining in March. The shelter index increased 0.3 percent, and the tobacco index increased sharply over the month. However, many indexes declined in April, including those for wireless phone services, medical care, motor vehicle insurance, apparel, used cars and trucks, recreation, and new vehicles.

The all items index rose 2.2 percent for the 12 months ending April. While a smaller increase than the 2.4 percent rise for the 12 months ending March, this is still a larger rise than the 1.7 percent average annual increase over the past 10 years. The index for all items less food and energy rose 1.9 percent over the last 12 months; this compares to a 1.8 percent average annual increase over the past decade. The energy index rose 9.3 percent over the last year, while the food index increased 0.5 percent.

Employment

Total nonfarm payroll employment increased by 211,000 in April, and the unemployment rate was little changed at 4.4 percent, according to the U.S. Bureau of Labor Statistics report. Job gains occurred in leisure and hospitality, health care and social assistance, financial activities, and mining.

Both the unemployment rate, at 4.4 percent, and the number of unemployed persons, at 7.1 million, changed little in April. Over the year, the unemployment rate has declined by 0.6 percentage point, and the number of unemployed has fallen by 854,000.

The number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged at 1.6 million in April and accounted for 22.6 percent of the unemployed. Over the year, the number of long-term unemployed was down by 433,000.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in April decreased $1.6 billion or 0.7 percent, according to the report from the U.S. Census Bureau. This decrease, down following four consecutive monthly increases, followed a 2.3 percent March increase. Excluding transportation, new orders decreased 0.4 percent. Excluding defense, new orders decreased 0.8 percent. Transportation equipment, down following two consecutive monthly increases, led the decrease, at 1.2 percent.

Shipments of manufactured durable goods in April, down three of the last four months, decreased $0.7 billion or 0.3 percent. This followed a 0.1 percent March decrease. Transportation equipment, down six of the last seven months, led the decrease, $0.4 billion or 0.5 percent.

According to the final report for March, new orders were up 2.9 percent year-to-date for furniture and related products while shipments were up 1.5 percent for the quarter.

Executive Summary

New orders in March 2017 were up 12 percent over March 2016, according to our latest survey of residential furniture manufacturers and distributors. The good news was that some 77 percent of the participants reported increases. The March increase brought year-to-date increase to 4 percent, up from 2 percent through February. Last year, new orders were even with 2015 first quarter.

Shipments increased 6 percent with some 71 percent of the participants reporting increases. Shipments were up 17 percent over February, but some of that increase was likely due to more working days in the month. Last year, first quarter shipments were 2 percent higher than the first quarter of 2015.

Backlogs were up 8 percent over March 2016 due to the higher increase in orders.

Receivables and inventory levels appear to be in really good shape considering the overall business conditions. Factory and warehouse employees and payrolls also appeared to be in good shape with little change in the month.

National

Housing

April existing-home sales were down 2.3 percent with single-family home sales dipping 2.4 percent. Most of this decline was blamed on low supply levels.

Existing-home sales were down in all regions of the country except in the Midwest where they were up 3.8 percent. Year-to-date, single-family sales were up 3.6 percent over last year in the South and 3.5 percent up in the West. Sales versus last year were down in the Northeast and Midwest. In spite of the March decline, sales levels remain very strong.

New home sales in April were down 11.4 percent from March but remained 0.5 percent above April 2016. Compared to April 2016, sales were up 19.7 percent in the Midwest and 4.1 percent in the South while sales were down 5.1 percent in the Northeast and 13.7 percent in the West.

Housing starts in April fell slightly from March but were 0.7 percent ahead of April 2016. Regionally compared to April 2016, starts were up 7.3 percent in the South and 29.9 percent in the West while starts were down 16.4 percent in the Northeast and 0.8 percent in the Midwest.

Other

U.S. retail and food services sales in April were up 0.4 percent over March 2017 and were up 4.5 percent over April 2016. The results for retail trade sales only were the same as overall. Sales at furniture and home furnishings stores were off slightly from March (0.5 percent) but were up 3.8 percent from April 2016. Year-to-date, sales at these stores were up 2.2 percent.

Consumer prices were up 0.2 percent in April. Over the 12 months ended April 2017, the all items index rose 2.2 percent. Much of this increase was due to the energy index. The 2.2 percent increase was larger than the 1.7 percent average annual increase over the past 10 years.

Nonfarm employment increased by 211,000 in April with the unemployment rate remaining at 4.4 percent.

The number of unemployed persons was at 7.1 million, about the same as last month.

The Leading Economic Indicators report noted that the positive outlook of consumers and financial markets continues to point to a growing economy.

Consumer Confidence

The two consumer confidence reports differed slightly this month with the University of Michigan report slightly more positive than the Conference Board's report. Neither report seemed to have significant changes but the Conference Board's report did show a slight decline.

One quote from the University of Michigan report was very positive. It said "More consumers reported an improved financial situation in May than anytime in the past dozen years. The financial strength was due to gains in income as well as gains in household wealth driven by rising stock prices and home values."

Thoughts

Though the reports on consumer confidence differed slightly, overall confidence remains very positive. Converting that confidence to more activity seems to be the trick. The March results of our survey were maybe a bit higher than we expected. Though most of what we had heard prior to the High Point Market had indicated that business had picked up. With over three-fourths of the participants reporting increases in orders, those expectations seemed to carry over into what we thought was a pretty good market.

In the next couple of weeks, we should start to know how good Market really was. The conversations we have had seem to be defined more as "ok" versus "good." But at least, most are positive.

While the overall economic conditions in the U.S. continue to be a bit sluggish, the key factors continue to be somewhat strong. While housing is off a bit, the stock market has been very strong; inflation is not bad except for energy indexes and retail in general is positive, along with good consumer confidence. All of this together should continue to produce more furniture sales along the rest of the year.

We hope you had a great Memorial Day weekend. We owe those who have served and died for the country so much. We were glad to see that there were so many nice observances over the weekend.

Estimated Business Activity (Millions of Dollars)						
	2017			2016		
	March	February	3 Months	March	February	3 Months
New Orders	2,535	2,168	6,738	2,255	2,077	6,362
Shipments	2,553	2,139	6,735	2,420	2,077	6,500
Backlog (R)	2,003	2,036		1,848	2,008	

Key Monthly Indicators			
	March 2017 From February 2017 Percent Change	March 2017 From March 2016 Percent Change	3 Months 2017 Versus 3 Months 2016 Percent Change
New Orders	+17	+12	+6
Shipments	+17	+6	+4
Backlog	–	+8	
Payrolls	+11	-1	+1
Employees	-1	-2	
Receivables	+3	+6	
Inventories	-1	-1	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2016				
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	–
November	+8	+4	+2	+2
December	+11	+15	+1	-1
2017				
January	–	+2	–	-2
February	+4	+3	+1	-2
March	+12	+6	+8	-2