SMITH LEONARD
Accountants & Consultants

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Furniture Insights®

Monthly Results

New Orders

New orders in April 2017 increased 7 percent over April 2016 new orders, according to our latest survey of residential furniture manufacturers and distributors, following a 12 percent increase reported last month for the March 2017 to March 2016 comparison. While this increase sounds great, unfortunately it was not good news for all, as the results were very mixed with the participants.

Only about 47 percent of the participants reported increased orders in April, but some of the ones reporting increases were very significant. This compared to some 77 percent of the participants reporting increased orders comparing March 2017 to March 2016. We can only assume that some of this disparity may have related to the timing of High Point Market orders for some of the participants that might place collections versus, say, custom upholstery, among other factors.

Year-to-date, new orders remained 6 percent ahead of the first 4 months of last year. Some 65 percent of the participants reported increased orders year-to-date, down from some 77 percent reporting increases through March.

Shipments and Backlogs

Shipments increased only 2 percent in April over April 2016 and fell 18 percent from March. The 18 percent decrease likely related to only 20 shipping days in April versus 23 in March, plus the Easter holidays likely reduced shipping days in April even more.

Just less than 40 percent of the participants reported increases in shipments down from 71 percent reporting increases in March.

Year-to-date, shipments remained 4 percent ahead of last year. Some 62 percent of the participants have reported increases in shipments year-to-date.

Backlogs were basically flat with March but were 11 percent higher than April a year ago. The 11 percent is up from the 8 percent increase reported last month.

Furniture Insights®
A Monthly Newsletter

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Receivables and Inventories

Receivable levels increased 6 percent over April 2016, a bit higher than both the increase in shipments for the month as well as the 4 percent increase in shipments year-to-date. Receivables were up 6 percent last month compared to a 6 percent increase in shipments so we expect the higher increase this month likely is a timing issue. We will need to watch those comparisons over the next month or so. We had not really seen any significant issues lately. But we will just keep an eye on.

Inventories were up 2 percent from March and about equal to April 2016, so we believe inventories remain in pretty good shape for the most part.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees in April were about equal to March levels. April employee levels were down 2 percent versus April 2016. The 2 percent decline from last year was the same as reported in the March to March comparison.

Factory and warehouse payrolls were down 1 percent from April 2016, in line with the decline in employees. Payrolls were down 11 percent from March, but as with shipments, the number of working days were down in April compared to March. Year-to-date, payrolls were up 1 percent over last year, the same as reported last month.

Overall, the employment results appear very much in line with current business conditions.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®*, which had decreased in May, increased moderately in June. The Index now stands at 118.9 (1985=100), up from 117.6 in May. The Present Situation Index increased from 140.6 to 146.3, while the Expectations Index declined from 102.3 last month to 100.6.

"Consumer confidence increased moderately in June following a small decline in May," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers" assessment of current conditions improved to a nearly 16-year high (July 2001, 151.3). Expectations for the short-term have eased somewhat, but are still upbeat. Overall, consumers anticipate the economy will continue expanding in the months ahead, but they do not foresee the pace of growth accelerating."

Consumers' appraisal of current conditions improved in June. Those saying business conditions are "good" increased from 29.8 percent to 30.8 percent, while those saying business conditions are "bad" declined from 13.9 percent to 12.7 percent. Consumers' assessment of the labor market was also more positive. Those stating jobs are "plentiful" rose from 30.0 percent to 32.8 percent, while those claiming jobs are "hard to get" decreased slightly from 18.3 percent to 18.0 percent.

Consumers, however, were less optimistic about the short-term outlook in June. The percentage of consumers expecting business conditions to improve over the next six months decreased from 21.5 percent to 20.4 percent, however, those expecting business conditions to worsen declined marginally from 10.3 percent to 9.9 percent.

Consumers' outlook for the labor market remained mixed. The proportion expecting more jobs in the months ahead increased from 18.6 percent to 19.3 percent, but those anticipating fewer jobs increased from 12.1 percent to 14.6 percent. The percentage of consumers expecting an improvement in their income rose from 19.1 percent to 22.2 percent, but the proportion expecting a decline increased slightly from 8.7 percent to 9.2 percent.

Gross Domestic Product (GDP)

Real gross domestic product (GDP) increased at an annual rate of 1.4 percent in the first quarter of 2017, according to the "third" estimate released by the Bureau of Economic Analysis. In the fourth quarter of 2016, real GDP increased 2.1 percent. In the second estimate, the increase in real GDP was 1.2 percent. With the third estimate for the first quarter, personal consumption expenditures (PCE) and exports increased more than previously estimated, but the general picture of economic growth remains the same.

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

The deceleration in real GDP in the first quarter reflected a downturn in private inventory investment, a deceleration in PCE, and a downturn in state and local government spending that were partly offset by an upturn in exports, an acceleration in nonresidential fixed investment, and a deceleration in imports.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.3 percent in May to 127.0 (2010 = 100), following a 0.2 percent increase in April, and a 0.4 percent increase in March.

"The U.S. LEI continued on its upward trend in May, suggesting the economy is likely to remain on, or perhaps even moderately above, its long-term trend of about 2 percent growth for the remainder of the year," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "The improvement was widespread among the majority of the leading indicators except for housing permits, which declined again. And, the average workweek in manufacturing has recently shown no sign of improvement."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1 percent in May to 115.3 (2010=100), following a 0.3 percent increase in April, and a 0.1 percent increase in March.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.1 percent in May to 124.2 (2010=100), following a 0.3 percent increase in April and a 0.2 percent increase in March.

Housing

Existing-Home Sales

Existing-home sales rebounded in May following a notable decline in April, and low inventory levels helped propel the median sales price to a new high while pushing down the median days a home is on the market to a new low, according to the National Association of Realtors®. All major regions except for the Midwest saw an increase in sales last month.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, climbed 1.1 percent to a seasonally adjusted annual rate of 5.62 million in May from a downwardly revised 5.56 million in April. Last month's sales pace was 2.7 percent above a year ago and was the third highest over the past year.

Single-family home sales increased 1.0 percent to a seasonally adjusted annual rate of 4.98 million in May from 4.93 million in April, and were now 2.7 percent above the 4.85 million pace a year ago. The median existing single-family home price was $254,600 in May, up 6.0 percent from May 2016.

Existing condominium and co-op sales climbed 1.6 percent to a seasonally adjusted annual rate of 640,000 units in May, and were 3.2 percent higher than a year ago. The median existing condo price was $238,700 in May, which was 4.8 percent above a year ago.

Lawrence Yun, NAR chief economist, says sales activity expanded in May as more buyers overcame the increasingly challenging market conditions prevalent in many areas. "The job market in most of the country is healthy and the recent downward trend in mortgage rates continues to keep buyer interest at a robust level," he said. "Those able to close on a home last month are probably feeling both happy and relieved. Listings in the affordable price range are scarce, homes are coming off the market at an extremely fast pace and the prevalence of multiple offers in some markets are pushing prices higher."

The median existing-home price for all housing types in May was $252,800. This surpasses last June ($247,600) as the new peak median sales price, is up 5.8 percent from May 2016 ($238,900) and marks the 63rd straight month of year-over-year gains.

Total housing inventory at the end of May rose 2.1 percent to 1.96 million existing homes available for sale, but was still 8.4 percent lower than a year ago (2.14 million) and has fallen year-over-year for 24 consecutive months. Unsold inventory is at a 4.2-month supply at the current sales pace, which was down from 4.7 months a year ago.

"Home prices keep chugging along at a pace that is not sustainable in the long run," added Yun. "Current demand levels indicate sales should be stronger, but it's clear some would-be buyers are having to delay or postpone their home search because low supply is leading to worsening affordability conditions."

Properties typically stayed on the market for 27 days in May, which was down from 29 days in April and 32 days a year ago; this was the shortest timeframe since NAR began tracking in May 2011. Fifty-five percent of homes sold in May were on the market for less than a month (a new high).

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage decreased for the second consecutive month, dipping to 4.01 percent in May from 4.05 percent in April. The average commitment rate for all of 2016 was 3.65 percent.

First-time buyers were 33 percent of sales in May, which was down from 34 percent in April but up from 30 percent 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

May existing-home sales in the Northeast jumped 6.8 percent to an annual rate of 780,000, and were 2.6 percent above a year ago. The median price in the Northeast was $281,300, which was 4.7 percent above May 2016.

In the Midwest, existing-home sales fell 5.9 percent to an annual rate of 1.28 million in May, and were 0.8 percent below a year ago. The median price in the Midwest was $203,900, up 7.3 percent from a year ago.

Existing-home sales in the South rose 2.2 percent to an annual rate of 2.34 million, and were now 4.5 percent above May 2016. The median price in the South was $221,900, up 5.3 percent from a year ago.

Existing-home sales in the West increased 3.4 percent to an annual rate of 1.22 million in May, and were now 3.4 percent above a year ago. The median price in the West was $368,800, up 6.9 percent from May 2016.

New Residential Sales

Sales of new single-family houses in May 2017 were at a seasonally adjusted annual rate of 610,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 2.9 percent above the revised April rate of 593,000 and was 8.9 percent above the May 2016 estimate of 560,000.

The median sales price of new houses sold in May 2017 was $345,800. The average sales price was $406,400.

The seasonally-adjusted estimate of new houses for sale at the end of May was 268,000. This represents a supply of 5.3 months at the current sales rate. New houses sold compared to May 2016 were flat in the Northeast, down 23.6 percent in the Midwest, but up 15 percent in the South and up 14.2 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 May were at a seasonally adjusted annual rate of 1,092,000. This was 5.5 percent below the revised April estimate of 1,156,000 and was 2.4 percent below the May 2016 rate of 1,119,000. Single-family housing starts in May were at a rate of 794,000; this was 3.9 percent below the revised April figure of 826,000, but up 8.5 percent versus May 2016.

Compared to May 2016, single-family housing starts were up 29.0 percent in the Midwest and 22.2 percent in the West, but declined 3.6 percent in the Northeast and 0.5 percent in the South.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for May 2017, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $473.8 billion, a decrease of 0.3 percent from the previous month, but 3.8 percent above May 2016. Total sales for the March 2017 through May 2017 period were up 4.4 percent from the same period a year ago.

Retail trade sales were down 0.3 percent from April 2017, and up 4.0 percent from last year. Building Material and Garden Equipment and Supplies Dealers were up 10.8 percent from May 2016, while Nonstore Retailers were up 10.2 percent from last year.

Sales at furniture and home furnishings stores were up 4.4 percent over May 2016 and up 3.4 percent year-to-date.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) decreased 0.1 percent in May 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 1.9 percent.

A decrease in the energy index was the main contributor to the monthly decrease in the all items index. The energy index fell 2.7 percent, led by a decline of 6.4 percent in the gasoline index. The food index rose 0.2 percent, due to increases in four of the six major grocery store food group indexes.

The index for all items less food and energy rose 0.1 percent in May, as it did in April. The shelter index increased 0.2 percent over the month. However, many indexes declined in May, including those for apparel, airline fares, communication, and medical care services.

The all items index rose 1.9 percent for the 12 months ending May, a smaller increase than the 2.2-percent rise for the 12 months ending April. This month's increase is still a larger rise than the 1.6-percent average annual increase over the past 10 years. The index for all items less food and energy rose 1.7 percent over the previous 12 months; this compares to a 1.8-percent average annual increase over the past decade. The energy index rose 5.4 percent over the last year, while the food index increased 0.9 percent.

Employment

Total nonfarm payroll employment increased by 138,000 in May, and the unemployment rate was little changed at 4.3 percent, according to the U.S. Bureau of Labor Statistics report. Job gains occurred in health care and mining.

The unemployment rate, at 4.3 percent, and the number of unemployed persons, at 6.9 million, changed little in May. Since January, the unemployment rate has declined by 0.5 percentage point, and the number of unemployed has decreased by 774,000.

Among the unemployed, the number of job losers and persons who completed temporary jobs declined by 211,000 to 3.3 million in May. The number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged over the month at 1.7 million and accounted for 24.0 percent of the unemployed.

Durable Goods Orders and Factory Shipments

The U.S. Census Bureau announced new orders for manufactured durable goods in May decreased $2.5 billion or 1.1 percent to $228.2 billion. This decrease, down two consecutive months, followed a 0.9 percent April decrease. Excluding transportation, new orders increased 0.1 percent. Excluding defense, new orders decreased 0.6 percent. Transportation equipment, also down two consecutive months, drove the decrease, $2.7 billion or 3.4 percent to $75.4 billion.

Shipments of manufactured durable goods in May, up following two consecutive monthly decreases, increased $1.8 billion or 0.8 percent to $234.9 billion. This followed a 0.3 percent April decrease. Transportation equipment, up following four consecutive monthly decreases, led the increase, $1.5 billion or 1.9 percent to $78.8 billion.

According to this report, shipments of furniture and related products increased 0.8 percent over April 2016 and were up year-to-date 0.9 percent. New orders in April were 2.3 percent ahead of April 2016 and up 1.9 percent over year-to-date results for 2016.

Executive Summary

Our latest survey of residential furniture manufacturers and distributors produced somewhat unusual results. New orders increased 7 percent in April over April 2016. The unusual part was that only 47 percent of the participants posted increases in new orders. The 7 percent increase followed a 4 percent increase in March when 77 percent of the participants reported increased orders.

Several of the participants reported significant double digit increases in April. We wonder if some of those results may have been due to substantial new orders obtained at the High Point Market, while some exhibitors tend to not see those results as quickly as others (such as new collections versus custom order upholstery and other factors).

Year-to-date, new orders remained 6 percent ahead of the same period a year ago. Approximately 65 percent of the participants reported increased year-to-date orders, down from 77 percent reporting last month.

Shipments increased 2 percent over April 2016 and were down 18 percent from March 2017. We would attribute the 18 percent decline to three fewer normal work days in April plus the effects of any Easter shut downs.

Year-to-date, shipments remained 4 percent ahead of last year. Some 62 percent of the participants reported increased shipments year-to-date.

Backlogs were basically flat with March but up 11 percent over April 2016. This compared to an 8 percent increase reported last month.

Receivable levels were a bit high based on shipments but since this was the first month we have seen that, we think it may just be a timing issue. Inventories seemed very much in line as did the employment factors.

National

Housing

Existing-home sales came back a bit in May but low inventory levels continue to curb sales as well as push prices up. Median home prices reached a new peak in May. All regions except the Midwest reported increases in home sales, though all four regions were higher than May 2016.

New single-family houses sold were up 8.9 percent above May 2016 results. Sales were up in the South and West, flat in the Northeast and down in the Midwest. Single-family housing starts were down a bit from April but still up 8.5 percent from May 2016; rising 29.0 percent in the Midwest, 22.2 percent in the West, but down slightly in the Northeast and South.

Other

Retail sales fell slightly in May from April but were 3.8 percent ahead of May 2016. Sales at furniture and home furnishings stores were up 4.4 percent over May 2016 and up 3.4 percent year-to-date.

Consumer price index fell 0.1 percent in May on an adjusted basis. Over the last 12 months, the all items index increased 1.9 percent. The decrease in May related primarily to the energy (primarily gasoline) index. The all items less food and energy rose 0.1 percent.

Nonfarm employment rose 138,000 in May. The unemployment rate at 4.3 percent, and the number of unemployed persons, at 6.9 million, was little changed.

The Conference Board Leading Economic Index increased again in May following increases in April and March. The report noted that the results “suggest that the economy is likely to remain on, or perhaps moderately above, its long-term trend of about 2 percent growth for the remainder of the year.”

Consumer Confidence

The Conference Board Consumer Confidence Index increased slightly in June after a small decrease in May. The report indicated that “Consumers assessment of current conditions improved to a nearly 16 year high” though short-term expectations have eased somewhat. The director stated that “Overall, consumers anticipate the economy will continue expanding in the months ahead, but they do not foresee the pace of growth accelerating”.

Thoughts

As we stated above, the increase in orders for April was very good but the way we got there was a bit different. The drop in new orders for more than one-half of the participants was not a good sign. From what we have heard, business at retail has been tough since apparently a good Memorial Day. While we normally see some sluggishness in the summer months, one quote we heard just today was that, yes, it normally slows down at this time of the year but not this much (or something to that effect).

We continue to find it interesting that consumer confidence has remained good. We think that is likely due to a strong stock market, fairly low interest rates, good job outlooks, among other things. What we do not understand is why, with all those positive factors, furniture sales are not doing better than they are.

But we need to keep in mind that retail in general is not all that strong either. According to the government reports, furniture and home furnishings stores sales are in line with retail sales in general. Maybe if Washington could figure a way to try to get along instead of the negative news, we might have better results overall.

In the meantime, let’s hope as vacation money is spent this summer, maybe there can be some left to spread our way a little later this year.

We hope you have a fun and safe July 4th holiday. Happy Birthday U.S.A.

Estimated Business Activity (Millions of Dollars)						
	2017			2016		
	April	March	4 Months	April	March	4 Months
New Orders	2,182	2,535	8,920	2,034	2,255	8,396
Shipments	2,119	2,553	8,854	2,069	2,420	8,552
Backlog (R)	2,004	2,003		1,813	1,848	

Key Monthly Indicators			
	April 2017 From March 2017 Percent Change	April 2017 From April 2016 Percent Change	4 Months 2017 Versus 4 Months 2016 Percent Change
New Orders	-16	+7	+6
Shipments	-18	+2	+4
Backlog	–	+11	
Payrolls	-11	-1	+1
Employees	–	-2	
Receivables	-2	+6	
Inventories	+2	–	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2016				
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
April	+7	+2	+11	-2