

Furniture Insights®

Monthly Results

New Orders

New orders in May 2017 increased 8 percent over May 2016 orders, according to our latest survey of residential furniture manufacturers and distributors. This increase followed a 7 percent increase reported last month and a 12 percent increase in the March 2017 to March 2016 comparison. New orders increased over the same month a year ago for some 58 percent of the participants, up from only 47 percent reporting increased orders last month.

Year-to-date, new orders were 7 percent ahead of the same period a year ago, up from a 6 percent increase through April. For the year-to-date comparison, approximately 60 percent of the participants have reported increases.

Shipments and Backlogs

Shipments in May were up 12 percent over April and up 7 percent over May 2016 shipments. May did have one more shipping than April. Approximately two-thirds of the participants reported increased shipments, up from 40 percent reporting increases last month.

Year-to-date, shipments were up 4 percent over the same period a year ago, the same as reported last month. Approximately 70 percent of the participants reported increased shipments, up slightly from last month.

Backlogs increased 3 percent from April and 11 percent from May 2016. April's backlogs were up 11 percent over April 2016 as well.



Receivables and Inventories

Receivable levels were up 5 percent in May 2017 versus May 2016, in line with the 4 percent increase of year-to-date shipments. Receivable levels were about even with April levels in spite of the 12 percent increase in shipments in May over April. Overall, receivable levels now appear back in line with expectations based on volume levels.

Furniture Insights®

A Monthly Newsletter

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Inventories were up 1 percent from April and up only 1 percent from May 2016. Overall, inventory levels appear to continue to be in good shape.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees fell 1 percent from April. May employee numbers were down 2 percent from May 2016. That 2 percent decrease was the same as the April to April 2016 decrease.

Factory and warehouse payrolls were up 4 percent from May 2017 compared to May 2016 and were up 3 percent from April. Year-to-date, factory and warehouse payrolls were up 1 percent over a year ago.

Overall, it appears that the level of employment results seem to be in very good shape based on current business.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index*®, which had declined marginally in June (a downward revision), improved in July. The Index now stands at 121.1 (1985=100), up from 117.3 in June. The Present Situation Index increased from 143.9 to 147.8, while the Expectations Index rose from 99.6 last month to 103.3.

“Consumer confidence increased in July following a marginal decline in June,” said Lynn Franco, Director of Economic Indicators at The Conference Board. “Consumers’ assessment of current conditions remained at a 16-year high (July 2001, 151.3) and their expectations for the short-term outlook improved somewhat after cooling last month. Overall, consumers foresee the current economic expansion continuing well into the second half of this year.”

Consumers’ assessment of current conditions improved in July. Those saying business conditions are “good” increased from 30.6 percent to 33.3 percent, while those saying business conditions are “bad” was virtually unchanged at 13.5 percent. Consumers’ appraisal of the labor market was also more favorable. Those stating jobs are “plentiful” rose from 32.0 percent to 34.1 percent, while those claiming jobs are “hard to get” decreased slightly from 18.4 percent to 18.0 percent.

Consumers were also more optimistic about the short-term outlook in July. The percentage of consumers expecting business conditions to improve over the next six months increased from 20.1 percent to 22.9 percent, while those expecting business conditions to worsen declined from 10.0 percent to 8.2 percent.

Consumers’ outlook for the labor market improved. The proportion expecting more jobs in the months ahead was unchanged at 19.2 percent, but those anticipating fewer jobs decreased from 14.6 percent to 13.3 percent. Consumers, however, were not as upbeat about their income prospects as in June. The percentage of consumers expecting an improvement in their income declined moderately from 20.9 percent to 20.0 percent, while the proportion expecting a decline increased from 9.3 percent to 10.0 percent.

Gross Domestic Product (GDP)

Real gross domestic product (GDP) increased at an annual rate of 2.6 percent in the second quarter of 2017, according to the “advance” estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 1.2 percent (revised).

The increase in real GDP in the second quarter reflected positive contributions from personal consumption expenditures

(PCE), nonresidential fixed investment, exports, and federal government spending that were partly offset by negative contributions from private residential fixed investment, private inventory investment, and state and local government spending. 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. increased 0.6 percent in June to 127.8 (2010=100), following a 0.2 percent increase in May, and a 0.2 percent increase in April.

“The U.S. LEI rose sharply in June, pointing to continued growth in the U.S. economy and perhaps even a moderate improvement in GDP growth in the second half of the year,” said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. “The broad-based gain in the U.S. LEI was led by a large contribution from housing permits, which improved after several months of weakness.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2 percent in June to 115.5 (2010=100), following a 0.3 percent increase in May, and a 0.2 percent increase in April.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.2 percent in June to 124.4 (2010=100), following a 0.1 percent increase in May and a 0.3 percent increase in April.

Housing

Existing-Home Sales

Existing-home sales slipped in June as low supply kept homes selling at a near record pace but ultimately ended up muting

overall activity, according to the National Association of Realtors®. Only 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, decreased 1.8 percent to a seasonally adjusted annual rate of 5.52 million in June from 5.62 million in May. Despite last month's decline, June's sales pace was 0.7 percent above a year ago, but was the second lowest of 2017 (February, 5.47 million).

Single-family home sales dipped 2.0 percent to a seasonally adjusted annual rate of 4.88 million in June from 4.98 million in May, but were still 0.6 percent above the 4.85 million pace a year ago. The median existing single-family home price was \$266,200 in June, up 6.6 percent from June 2016.

Existing condominium and co-op sales were at a seasonally adjusted annual rate of 640,000 units in June (unchanged from May), and were 1.6 percent higher than a year ago. The median existing condo price was \$245,900 in June, which was 6.5 percent above a year ago.

Lawrence Yun, NAR chief economist, says the previous three-month lull in contract activity translated to a pullback in existing sales in June. “Closings were down in most of the country last month because interested buyers are being tripped up by supply that remains stuck at a meager level and price growth that's straining their budget,” he said. “The demand for buying a home is as strong as it has been since before the Great Recession. Listings in the affordable price range continue to be scooped up rapidly, but the severe housing shortages inflicting many markets are keeping a large segment of would-be buyers on the sidelines. The good news is that sales are still running slightly above last

year's pace despite these persistent market challenges."

The median existing-home price for all housing types in June was \$263,800, up 6.5 percent from June 2016 (\$247,600). Last month's median sales price surpasses May as the new peak and is the 64th straight month of year-over-year gains.

Total housing inventory at the end of June declined 0.5 percent to 1.96 million existing homes available for sale, and was now 7.1 percent lower than a year ago (2.11 million) and has fallen year-over-year for 25 consecutive months. Unsold inventory is at a 4.3-month supply at the current sales pace, which was down from 4.6 months a year ago.

First-time buyers were 32 percent of sales in June, which was down from 33 percent both in May 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.

"It's shaping up to be another year of below average sales to first-time buyers despite a healthy economy that continues to create jobs" said Yun. "Worsening supply and affordability conditions in many markets have unfortunately put a temporary hold on many aspiring buyers' dreams of owning a home this year."

Regional

June existing-home sales in the Northeast fell 2.6 percent to an annual rate of 760,000, but were still 1.3 percent above a year ago. The median price in the Northeast was \$296,300, which was 4.1 percent above June 2016.

In the Midwest, existing-home sales rose 3.1 percent to an annual rate of 1.32 million in June (unchanged from June 2016). The median price in the Midwest was \$213,000, up 7.7 percent from a year ago.

Existing-home sales in the South decreased 4.7 percent to an annual rate of 2.23 million (unchanged from a year ago). The median price in the South was \$231,300, up 6.2 percent from a year ago.

Existing-home sales in the West declined 0.8 percent to an annual rate of 1.21 million in June, but remain 2.5 percent above a year ago. The median price in the West was \$378,100, up 7.4 percent from June 2016.

New Residential Sales

Sales of new single-family houses in June 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 0.8 percent above the revised May rate of 605,000 and was 9.1 percent above the June 2016 estimate of 559,000.

The median sales price of new houses sold in June 2017 was \$310,800. The average sales price was \$379,500.

The seasonally-adjusted estimate of new houses for sale at the end of June was 272,000. This represents a supply of 5.4 months at the current sales rate.

Compared to June 2016, sales of new houses in June 2017 were up 41.4 percent in the Northeast, 0.9 percent in the South and 33.3 percent in the West. Sales were off 12.0 percent in the Midwest.

Housing Starts

The U.S. Census Bureau and the Department of Housing and Urban Development jointly announced that privately-owned housing starts in June were at a seasonally adjusted annual rate of 1,215,000. This was 8.3 percent above the revised May estimate of 1,122,000 and was 2.1 percent above the June 2016 rate of 1,190,000. Single-family housing starts in June were at a rate of 849,000; this was

6.3 percent above the revised May figure of 799,000. The June rate for units in buildings with five units or more was 359,000.

Single-family starts in June were up 10.3 percent from June 2016. Regionally, starts were up 17.5 percent in the Midwest, 8.5 percent in the South and 22.4 percent in the West, but were down 19.2 percent in the Northeast.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for June 2017, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$473.5 billion, a decrease of 0.2 percent from the previous month, and 2.8 percent above June 2016. Total sales for the April 2017 through June 2017 period were up 3.8 percent from the same period a year ago.

Retail trade sales were down 0.1 percent from May 2017, and up 3.0 percent from last year. Nonstore Retailers were up 9.2 percent from June 2016, while Sporting Goods, Hobby, Book, & Music Stores were down 8.9 percent from last year.

Sales at furniture and home furnishings stores in June were basically flat with sales in May but were up 2.5 percent over June 2016. Year-to-date, sales at those stores were up 3.2 percent over the same period a year ago.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in June 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 1.6 percent.

The energy index declined again in June, falling 1.6 percent; this offset an increase in the index for all items less food and energy. All the major energy component indexes declined, with the gasoline index falling 2.8 percent. The food index was unchanged in June, with the index for food at home declining slightly as five of the six major grocery store food group indexes decreased.

The index for all items less food and energy rose 0.1 percent in June, its third straight such increase. The shelter index continued to rise, and the indexes for medical care, motor vehicle insurance, education, and personal care also increased. The indexes for airline fares, used cars and trucks, wireless telephone services, and new vehicles were among the indexes that declined in June.

The all items index rose 1.6 percent for the 12 months ending June, this measure has been declining steadily since February, when it was 2.7 percent. The index for all items less food and energy rose 1.7 percent for the 12 months ending June, the same increase as for the 12 months ending May. The energy index rose 2.3 percent over the last year, while the food index increased 0.9 percent.

Employment

Total nonfarm payroll employment increased by 222,000 in June, and the unemployment rate was little changed at 4.4 percent, according to the U.S. Bureau of Labor Statistics report. Employment increased in health care, social assistance, financial activities, and mining.

In June, the unemployment rate, at 4.4 percent, and the number of unemployed persons, at 7.0 million, were little changed. Since January, the unemployment rate and the number of unemployed are down by 0.4 percentage point and 658,000, respectively.

The number of long-term unemployed (those jobless for 27 weeks or more) was unchanged at 1.7 million in June and accounted for 24.3 percent of the unemployed. Over the year, the number of long-term unemployed was down by 322,000.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in June increased \$14.9 billion or 6.5 percent to \$245.6 billion, according to the report from the U.S. Census Bureau. This increase, up following two consecutive monthly decreases, followed a 0.1 percent May decrease. Excluding transportation, new orders increased 0.2 percent. Excluding defense, new orders increased 6.7 percent. Transportation equipment, also up following two consecutive monthly decreases, led the increase, \$14.6 billion or 19.0 percent to \$91.6 billion.

Shipments of manufactured durable goods in June, down three of the last four months, decreased \$0.1 billion or virtually unchanged to \$236.0 billion. This followed a 1.2 percent May increase. Transportation equipment, down five of the last six months, drove the decrease, \$0.4 billion or 0.6 percent to \$78.8 billion.



Executive Summary

The results of our latest survey of residential furniture manufacturers and distributors was a little like the results last month—a bit surprising based on conversations at and since the High Point Market. New orders were up 8 percent in May 2017 versus May 2016, following the 7 percent increase reported last month. New orders were up for some 58 percent of the participants up from 47 percent reporting increases last month.

Year-to-date, new orders were up 7 percent over last year, up from a 6 percent increase reported last month. Approximately 60 percent of the participants reported increased year-to-date orders.

Backlogs were up 3 percent from April and remained 11 percent ahead of last May.

Receivable and inventory levels appear in good shape considering current business levels. Receivables were up 5 percent with shipments up 7 percent for the month versus last year. Inventories were up only 1 percent, so very much in line.

Factory and warehouse payrolls and employees were also in line, with the number of factory and warehouse employees actually down 2 percent from last year. Payrolls were up 4 percent for the month and 1 percent for the year-to-date, so very much in line. Pure importers can have some effect on payroll numbers.

National

Housing

Existing-home sales decreased slightly in June for both single-family and overall. Yet sales remained 0.7 percent ahead of June 2016. June sales were the second lowest in 2017. The results were primarily blamed on lack of inventory and the continued increases in prices. Sales were up in the Midwest but down in all three other regions.

New home sales were up compared to last June in all regions except the Midwest.

Housing starts were up 8.3 percent over May and up 2.1 percent from June 2016. Single-family starts were up 10.3 from June 2016 and were up in all regions except the Northeast, where they were down 19.2 percent.

GDP

The first estimate of GDP for the second quarter noted an increase of 2.6 percent versus 1.2 percent reported for the first quarter. The increase came from positive contributions from personal consumption expenditures, nonresidential fixed investment, exports and federal government expenditures.

Other

Retail and food services sales overall were down 0.2 percent in June from May, but were up 2.8 percent over June 2016. Retail trade sales were down 0.1 percent from May and up 3.0 percent from June 2016. Sales at furniture and home furnishings stores were basically flat comparing June and May sales but were up 2.5 percent over June 2016. Year-to-date, sales at these stores were up 3.2 percent.

The Consumer Price Index was little changed in June. Over the last 12 months, the all items index rose 1.6 percent. The energy index dropped in June offsetting an increase in the all items less food and energy.

The employment picture continued to show improvements, adding 222,000 jobs in June. The unemployment rate remained at 4.4 percent.

The Conference Board Leading Economic Index increased 0.6 percent following 0.2 percent increases reported in May and April. The report noted that the results pointed to continued growth in the U.S. economy and possibly an improvement in the overall GDP in the second half of the year.

Consumer Confidence

After a small decline in the Consumer Confidence Index in June, the index improved in July. The Index increased to 121.1 from 117.3 in June. Lynn Franco, Director of Economic Indicators at the Conference Board stated, "Consumers' assessment of current conditions remained at a 16-year high (July 2001 at 151.3) and their expectations for the short term outlook improved somewhat after cooling last month.

The report indicated that consumers overall felt better about business conditions and availability of jobs. Although they were not positive about their income prospects.

Thoughts

The increase in orders in June 2017 compared to June 2016 was again very positive and with orders up for 58 percent of the participants versus 47 percent last month, as the results were much more wide spread. We noted last month that we had heard that business had slowed since

Memorial Day so we were a bit surprised that the results for manufacturers and distributors were as positive as they were.

With consumer confidence at its 16-year high, according to the Conference Board Report, the stock market is doing well, housing overall is still doing well in spite of ups and downs, inflation is mostly in check, gas prices are relatively low, employment news is fairly good and interest rates are still at historic low levels, so why is retail not doing better. It's not just furniture sales. Year-to-date, sales at clothing and clothing accessory stores were even with last year. Sporting goods, hobby, book and music stores were down 4.7 percent. Department stores were down 4.2 percent. Electronic and appliance stores were down 1.1 percent. So the increase in furniture and home furnishings stores of 3.2 percent was not all bad.

Overall, retail was up 4.0 percent, auto and motor vehicle sales were up 4.5 percent. Non store retailers were up 10.8 percent so it is clear that some of the negative groups are being affected by online sales. Yet retail in general just does not seem like it is good as it should be.

The only thing we can figure is the negative (for the most part) media news just keeps consumers from spending. Whether its "Obamacare", tax cuts, Russia, Isis and a number of other things, it just does not seem like it is as good as it should be.

Yet according to our annual operating statistics survey that we recently completed, profitability was up for the participants in our survey. So life is not all bad. We have had several good or at least decent growth several years in a row. Maybe we are just expecting too much.

| Estimated Business Activity (Millions of Dollars) | | | | | | |
|---|-------|-------|----------|-------|-------|----------|
| | 2017 | | | 2016 | | |
| | May | April | 5 Months | May | April | 5 Months |
| New Orders | 2,410 | 2,182 | 11,330 | 2,332 | 2,034 | 10,628 |
| Shipments | 2,363 | 2,119 | 11,217 | 2,199 | 2,069 | 10,771 |
| Backlog (R) | 2,057 | 2,004 | | 1,846 | 1,813 | |

| 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 | +13 | +8 | +7 |
| Shipments | +12 | +7 | +4 |
| Backlog | +3 | +11 | |
| Payrolls | +3 | +4 | +1 |
| Employees | -1 | -2 | |
| Receivables | - | +5 | |
| Inventories | +1 | +1 | |

| Percentage Increase or Decrease Compared to Prior Year | | | | |
|--|------------|-----------|---------|------------|
| | New Orders | Shipments | Backlog | Employment |
| 2016 | | | | |
| 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 |
| May | +8 | +7 | +11 | -2 |