Smith Leonard Accountants & Consultants

September 2017

Furniture Insights®

Monthly Results

New Orders

The results of our recent survey of residential furniture manufacturers and distributors continued to show very positive results as a whole. New orders in July exceeded July 2016 orders by 11 percent. These results followed increases reported in June of 6 percent, May of 8 percent and April of 7 percent when compared to the same month in 2016. New orders were down from June some 12 percent, which was actually good considering most companies shut down for the holiday week of the 4th of July.

New orders in July 2017 increased over last July for some 67 percent of the participants, up from about 60 percent reporting increases in the last two months.

Year-to-date, new orders were up 7 percent compared to the same period a year ago. The 7 percent increase was up from 6 percent through June. New orders were up for some 72 percent of the participants, up from 68 percent reporting increased orders last month and 60 percent in May.

Shipments and Backlogs

Shipments in July 2017 were 10 percent higher than shipments in July 2016 after being up 7 percent in June versus June 2016. Shipments in July were down 20 percent from June but that again was primarily due to the shutdown of a week for most participants.

Shipments in July were up over July 2016 for some 70 percent of the participants. This was down from 83 percent reporting increases in June, but still very good for the most part based on previous reports.

Year-to-date, shipments remained 5 percent ahead of last year. Shipments increased year-to-date for 70 percent of the participants up from some 65 percent reporting increases last month.

Backlogs were up 4 percent from June and were up 8 percent over July 2016. Backlogs in June were up 6 percent over June 2016.

Furniture Insights®
A Monthly Newsletter

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Receivables and Inventories

In July 2017, receivable levels were 7 percent higher than July 2016 levels. The July levels were 6 percent lower than June results. Both the increase from last year and the decrease from last month appear to be very much in line with the respective increase and decrease in shipments in the month compared to last year and last month.

Inventory levels in July increased 2 percent from June and were 3 percent higher than July 2016 levels. The 3 percent increase over last year seems very much in line with current business levels.

Factory and Warehouse Employees and Payroll

Factory and warehouse payrolls were 6 percent over July 2016, apparently very much in line with the increase in orders and shipments. The payrolls were down 17 percent from June 2017, again as expected with the week off for most due to the holiday.

The number of factory and warehouse employees were up slightly from June but surprisingly were down 3 percent from July a year ago. Overall though, these numbers tend to fluctuate slightly from month to month, so we continue to think they are in line.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®*, which had improved marginally in August, declined slightly in September. The Index now stands at 119.8 (1985=100), down from 120.4 in August. The Present Situation Index decreased from 148.4 to 146.1, while the Expectations Index rose marginally from 101.7 last month to 102.2.

"Consumer confidence decreased slightly in September after a marginal improvement in August," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Confidence in Texas and Florida, however, decreased considerably, as these two states were the most severely impacted by Hurricanes Harvey and Irma. Despite the slight downtick in confidence, consumers' assessment of current conditions remains quite favorable and their expectations for the short-term suggest the economy will continue expanding at its current pace."

Consumers' assessment of current conditions moderated in September. Those saying business conditions are "good" decreased slightly from 34.5 percent to 33.9 percent, while those saying business conditions are "bad" increased from 13.2 percent to 13.8 percent. Consumers' appraisal of the labor market was also somewhat less upbeat. Those stating jobs are "plentiful" declined from 34.4 percent to 32.6 percent, however, those claiming jobs are "hard to get" decreased marginally from 18.4 percent to 18.1 percent.

Consumers' optimism about the short-term outlook was somewhat better in September. The percentage of consumers expecting business conditions to improve over the next six months rose slightly from 19.8 percent to 20.2 percent, but those expecting business conditions to worsen increased from 8.0 percent to 9.9 percent.

Gross Domestic Product (GDP)

Real gross domestic product (GDP) increased at an annual rate of 3.1 percent in the second quarter of 2017, according to the "third" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 1.2 percent.

The GDP estimate released is based on more complete source data than were available for the "second" estimate issued last month. In the second estimate, the increase in real GDP was 3.0 percent. With this third estimate for the second quarter, the private inventory investment increased more than previously estimated, but the general picture of economic growth remains the same.

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

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.4 percent in August to 128.8 (2010=100), following a 0.3 percent increase in July, and a 0.6 percent increase in June.

"The August gain is consistent with continuing growth in the U.S. economy for the second half of the year, which may even see a moderate pick up," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "While the economic impact of recent hurricanes is not fully reflected in the leading indicators yet, the underlying trends suggest that the current solid pace of growth should continue in the near term."

The Conference Board Coincident Economic Index® (CEI) for the U.S. was unchanged in August, remaining at 115.8 (2010=100), following a 0.3 percent increase in July, and a 0.1 percent increase in June.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.3 percent in August to 125.2 (2010=100), following a 0.2 percent increase in July and a 0.2 percent increase in June.

Housing

Existing-Home Sales

Existing-home sales stumbled in August for the fourth time in five months as strained supply levels continue to subdue overall activity, according to the National Association of Realtors®. Sales gains in the Northeast and Midwest were outpaced by declines in the South and West.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, retreated 1.7 percent to a seasonally adjusted annual rate of 5.35 million in August from 5.44 million in July. Last month's sales pace was 0.2 percent above last August, and was the lowest since then.

Single-family home sales decreased 2.1 percent to a seasonally adjusted annual rate of 4.74 million in August from 4.84 million in July, but were still 0.4 percent above the 4.72 million pace a year ago. The median existing single-family home price was $255,500 in August, up 5.6 percent from August 2016.

Existing condominium and co-op sales climbed 1.7 percent to a seasonally adjusted annual rate of 610,000 units in August, but were still 1.6 percent below a year ago. The median existing condo price was $237,600 in August, which was 5.4 percent above a year ago.

Lawrence Yun, NAR chief economist, says the slump in existing sales stretched into August despite what remains a solid level of demand for buying a home. "Steady employment gains, slowly rising incomes and lower mortgage rates generated sustained buyer interest all summer long, but unfortunately, not more home sales," he said. "What's ailing the housing market and continues to weigh on overall sales is the inadequate levels of available inventory and the upward pressure it's putting on prices in several parts of the country. Sales have been unable to break out because there are simply not enough homes for sale."

Added Yun, "Some of the South region's decline in closings can be attributed to the devastation Hurricane Harvey caused to the greater Houston area. Sales will be impacted the rest of the year in Houston, as well as in the most severely affected areas in Florida from Hurricane Irma. However, nearly all of the lost activity will likely show up in 2018."

The median existing-home price for all housing types in August was $253,500, up 5.6 percent from August 2016 ($240,000). August's price increase marks the 66th straight month of year-over-year gains.

Total housing inventory at the end of August declined 2.1 percent to 1.88 million existing homes available for sale, and was now 6.5 percent lower than a year ago (2.01 million) and has fallen year-over-year for 27 consecutive months. Unsold inventory was at a 4.2-month supply at the current sales pace, which was down from 4.5 months a year ago.

Properties typically stayed on the market for 30 days in August, which is unchanged from July and down from 36 days a year ago. Fifty-one percent of homes sold in August were on the market for less than a month.

First-time buyers were 31 percent of sales in August, which was down from 33 percent in July and was the lowest share since last August (also 31 percent). 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

August existing-home sales in the Northeast jumped 10.8 percent to an annual rate of 720,000, and were now 1.4 percent above a year ago. The median price in the Northeast was $289,500, which was 5.6 percent above August 2016.

In the Midwest, existing-home sales rose 2.4 percent to an annual rate of 1.28 million in August, and were now 0.8 percent above a year ago. The median price in the Midwest was $200,500, up 5.0 percent from a year ago.

Existing-home sales in the South decreased 5.7 percent to an annual rate of 2.15 million in August, and were now 0.9 percent lower than a year ago. The median price in the South was $220,400, up 5.4 percent from a year ago.

Existing-home sales in the West fell 4.8 percent to an annual rate of 1.20 million in August, but were still 0.8 percent above a year ago. The median price in the West was $374,700, up 7.7 percent from August 2016.

New Residential Sales

Sales of new single-family houses in August 2017 were at a seasonally adjusted annual rate of 560,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 3.4 percent below the revised July rate of 580,000 and was 1.2 percent below the August 2016 estimate of 567,000.

The median sales price of new houses sold in August 2017 was $300,200. The average sales price was $368,100.

The seasonally-adjusted estimate of new houses for sale at the end of August was 284,000. This represents a supply of 6.1 months at the current sales rate.

Sales in August compared to August 2016 were down in the South, but up in all other regions of the country.

Housing Starts

The U.S. Census Bureau and the Department of Housing and Urban Development jointly announced that privately-owned housing starts in August were at a seasonally adjusted annual rate of 1,180,000. This was 0.8 percent below the revised July estimate of 1,190,000, but was 1.4 percent above the August 2016 rate of 1,164,000. Single-family housing starts in August were at a rate of 851,000; this was 1.6 percent above the revised July figure of 838,000.

Single-family housing starts in August compared to August 2016 were up 17.1 percent with starts up 26.9 percent in the Northeast, 22.8 percent in the South and 14.6 percent in the West, while falling 2.7 percent in the Midwest.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for August 2017, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $474.8 billion, a decrease of 0.2 percent from the previous month, and 3.2 percent above August 2016. Total sales for the June 2017 through August 2017 period were up 3.2 percent from the same period a year ago.

Retail trade sales were down 0.3 percent from July 2017, and up 3.3 percent from last year. Nonstore Retailers were up 8.4 percent from August 2016, while Building Materials and Garden Equipment and Supplies Dealers were up 7.5 percent from last year.

Sales at furniture and home furnishings stores in August were up 5.4 percent over August 2016 and up 0.4 percent over July 2017. Year-to-date, sales at these stores were up 4.0 percent, the third highest percent growth of all categories other than nonstore retailers. July sales at gasoline stations and building material and garden equipment and supplies dealers had a higher percent of growth.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.4 percent in August 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.

Increases in the indexes for gasoline and shelter accounted for nearly all of the seasonally adjusted increase in the all items index. The energy index rose 2.8 percent in August as the gasoline index increased 6.3 percent. The shelter index rose 0.5 percent in August with the rent index up 0.4 percent. The food index rose slightly in August, with the index for food away from home increasing and the food at home index declining.

The all items index rose 1.9 percent for the 12 months ending July. The 12-month change in the index for all items less food and energy remained at 1.7 percent for the fourth month in a row. It has remained in the range of 1.6 percent to 2.3 percent since June 2011. The energy index rose 6.4 percent over the past 12 months, and the food index increased 1.1 percent.

Employment

Total nonfarm payroll employment increased by 156,000 in August, 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 manufacturing, construction, professional and technical services, health care, and mining.

In August, the unemployment rate, at 4.4 percent, and the number of unemployed persons, at 7.1 million, were little changed. After declining earlier in the year, the unemployment rate has been either 4.3 or 4.4 percent since April.

The number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged in August at 1.7 million and accounted for 24.7 percent of the unemployed.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in August increased $3.9 billion or 1.7 percent to $232.8 billion, according to the U.S. Census Bureau. This increase, up two of the last three months, followed a 6.8 percent July decrease. Excluding transportation, new orders increased 0.2 percent. Excluding defense, new orders increased 2.2 percent. Transportation equipment, also up two of the last three months, led the increase.

Shipments of manufactured durable goods in August, up three of the last four months, increased $0.7 billion or 0.3 percent to $237.2 billion. This followed a 0.1 percent July increase. Machinery, up nine of the last ten months, led the increase, at 1.1 percent.

According to the final report, new orders for furniture and related products increased 7.0 percent for July 2017 over July 2016 and were up 2.0 percent year-to-date. Shipments for the same period were up 2.0 percent for the month and 1.4 percent year-to-date.

Executive Summary

The results of our recent survey of residential furniture manufacturers and distributors continued the last few months of positive news. New orders in July were up 11 percent over July 2016, following increases of 6 percent in June, 8 percent in May and 7 percent in April. New orders increased over last year for 67 percent of our participants.

Year-to-date, new orders were 7 percent higher than the same period a year ago, up from 6 percent reported last month. Approximately 72 percent of the participants have reported increased orders for the year.

Shipments were also up nicely with a 10 percent increase over July 2016. The decline of 20 percent from June is normal with most of the companies taking a week off for the July 4th holiday. Increased shipments for the month were reported by 70 percent of the participants.

Year-to-date, shipments were up 5 percent. Approximately 70 percent of the participants reported increased shipments year-to-date.

Backlogs were up 8 percent over July 2016. This compared to a 6 percent increase reported last month.

Receivable levels were very much in line with both the increase in shipments over July 2016 and the decrease in shipments from June. Inventory levels also appeared to be very much in line with the increased levels of business, up only 3 percent over July 2016.

Also, the number of factory and warehouse employees and payrolls appear very much in line, though the number of factory employees were actually down 3 percent from last year. This could be a timing issue. Year-to-date, payrolls are up only 2 percent over last year in spite of the increased levels of orders and shipments.

National

Housing

Existing-home sales fell slightly in August from July but were still slightly ahead of August 2016. But this was the lowest increase over the prior year in 2017. Single-family sales were also down from July but still up 1.7 percent over August 2016.

Regionally, sales were down 14.5 percent from last year in the Northeast and 5.3 percent in the Midwest. Sales were up 5.0 percent in the West and 2.2 percent in the South.

Existing-home sales continued to be hampered by lack of inventories and increasing prices. Also, some of the decline could be the effects of Hurricane Harvey in Texas.

New house sales were also down from July and down 1.2 percent from August 2016. Sales were down in the South but up in all three of the other regions.

Single-family starts were up 17.1 percent with starts up in three regions but fell in the Midwest. Multifamily starts were off substantially causing overall starts to only be up 1.7 percent.

Other

Retail sales for August 2017 were down 0.2 percent from July but 3.2 percent above August 2016. Retail trade sales were down 0.3 percent from July 2017 but were up 3.3 percent from August 2016.

Sales at furniture and home furnishings stores in August were up 5.4 percent over August 2016. Year-to-date, sales at these stores were up 4.0 percent, the third highest growth of all categories other than nonstore retailers.

The Consumer Price Index rose 0.4 percent in August putting the all items index up 1.9 percent over the last 12 months. Indexes for gasoline and shelter accounted for most of the all items index increase.

The Conference Board Leading Economic Index increased again in August following previous month increases. The Director of Business Cycles and Growth Research for the Conference Board indicated that the gain is consistent with expected growth for the last half of the year, though some growth may be impacted by the hurricanes.

The employment gains in August were a little softer at 156,000 but were still decent. The unemployment rate held steady at 4.4 percent and the number of unemployed held at about 7.1 million.

The third estimate for GDP indicated a 3.1 percent increase. The increase was led by positive contributions from Personal Consumption Expenditures, nonresidential fixed investment, exports, federal government spending and private inventory investment.

Consumer Confidence

The Conference Board Consumer Confidence Index declined slightly in September after rising in August. Part of the decline was based on confidence decreases in Florida and Texas due to the hurricanes. Overall though, short-term outlooks remained positive with positive thoughts towards improved business conditions.

Thoughts

The solid growth in new orders since March continues to be good for many in the industry. With growth in orders year-to-date at 7 percent and increased orders for over 70 percent of the participants, things seem pretty good through July. Unfortunately, especially for those in the path of Hurricanes Harvey and Irma, things will definitely be choppy for a while. The recovery periods have definitely slowed business in Florida and Texas as well as lingering effects of major rains from Harvey. But as things settle down in all the hurricane impacted areas, we should see significant new orders.

In addition, in spite of those impacts, we continue to believe business will be pretty good throughout the rest of the year. The big question in the near future seems to be when the stock market bear wakes up and how long he/she will stay up as well as how bad a mood it might be in.

Continued prayers and thoughts for all of those affected by the hurricanes including the islands. We cannot imagine the difficulties they have gone through and are going through.

Estimated Business Activity (Millions of Dollars)						
	2017			2016		
	July	June	7 Months	July	June	7 Months
New Orders	2,115	2,416	15,861	1,904	2,280	14,812
Shipments	2,101	2,617	15,935	1,910	2,457	15,138
Backlog (R)	2,054	1,975		1,902	1,908	

Key Monthly Indicators			
	July 2017 From June 2017 Percent Change	July 2017 From July 2016 Percent Change	7 Months 2017 Versus 7 Months 2016 Percent Change
New Orders	-12	+11	+7
Shipments	-20	+10	+5
Backlog	+4	+8	
Payrolls	-17	+6	+2
Employees	+1	-3	
Receivables	-6	+7	
Inventories	+2	+3	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2016				
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
June	+6	+7	+6	-1
July	+11	+10	+8	-3