SMITH LEONARD
Accountants & Consultants

October 2017

Furniture Insights®

Monthly Results

New Orders

New orders in August 2017 were 1 percent higher than August 2016 orders, according to our latest survey of residential furniture manufacturers and distributors. This increase followed increases of 11 percent in July, 6 percent in June and 8 percent in May. In fact, this increase, though small, marked the 13th straight month of increased orders when compared to the same month a year ago (ok, so January 2017 was basically flat, so I counted that as positive). Some 56 percent of the participants reported increased orders for the month, down from 67 percent reporting increases last month.

Year-to-date, new orders were 6 percent higher than the same period a year ago. Last year through August, orders were up 1 percent over the same period in 2015. Almost 70 percent of the participants have reported increased orders year-to-date.

Shipments and Backlogs

Shipments were up 5 percent over August 2016 and up 23 percent from July 2017. The increase over July was due to the holiday shutdown week for many participants. Shipments increased for approximately 74 percent of the participants in August.

Year-to-date, shipments were up 5 percent over the same period a year ago. Shipments were reported up for three-fourths of the participants. Last year at the end of August, shipments were basically flat compared to the year before.

Backlogs fell 5 percent from July as shipments in dollars exceeded orders. Backlogs were 6 percent ahead of last August down slightly from 8 percent reported in July.

Furniture Insights®
A Monthly Newsletter

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Receivables and Inventories

Receivable levels were 7 percent higher than August 2016, slightly higher than the 5 percent increase in shipments for the month as well as year-to-date. This was the first time in a long time that we had this happen. We will see if it was just a timing issue when we get September results. In spite of the large increase in shipments from July to August, receivable levels only went up 5 percent.

Inventories were up 3 percent from August 2016 and were flat compared to July 2017 levels. The results appear very much in line compared to current orders and shipments.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees was down 3 percent from August 2016. This was the same decrease as we reported in July. The number of employees compared to July was basically flat.

Factory and warehouse payrolls were up 2 percent over August 2016 and up 2 percent for the year-to-date. This increase for the year-to-date was the same as we reported last month. Overall, the results continue to be very much in line with current business conditions.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®*, which had improved marginally in September (an upward revision), increased again in October. The Index now stands at 125.9 (1985=100), up from 120.6 in September. The Present Situation Index increased from 146.9 to 151.1, while the Expectations Index rose from 103.0 last month to 109.1.

"Consumer confidence increased to its highest level in almost 17 years (Dec. 2000, 128.6) in October after remaining relatively flat in September," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' assessment of current conditions improved, boosted by the job market which had not received such favorable ratings since the summer of 2001. Consumers were also considerably more upbeat about the short-term outlook, with the prospect of improving business conditions as the primary driver. Confidence remains high among consumers, and their expectations suggest the economy will continue expanding at a solid pace for the remainder of the year."

Consumers' appraisal of present-day conditions improved in October. The percentage saying business conditions are "good" increased from 33.4 percent to 34.5 percent, while those saying business conditions are "bad" rose marginally from 13.2 percent to 13.5 percent. Consumers' assessment of the job market was more upbeat. The percentage of consumers stating jobs are "plentiful" increased from 32.7 percent to 36.3 percent, while those claiming jobs are "hard to get" decreased slightly from 18.0 percent to 17.5 percent.

Consumers' optimism about the short-term outlook also rose in October. The percentage of consumers expecting business conditions to improve over the next six months increased from 20.9 percent to 22.2 percent, while those expecting business conditions to worsen decreased from 9.6 percent to 6.9 percent.

University of Michigan Surveys of Consumers

Surveys of Consumers chief economist, Richard Curtin reported that consumer sentiment slipped ever so slightly in late October, despite remaining at its highest

monthly level since the start of 2004. This is only the second time the Sentiment Index has been above 100.0 since the end of the record 1990's expansion, and its average during the first ten months of 2017 (96.7) has been the highest since 2000 (108.5). The October gain was reflected in more favorable consumers' assessments of current economic conditions as well as expected economic prospects. Personal finances were judged near all-time record favorable levels due to gains in household incomes as well as decade highs in home and stock values. Lingering doubts about the near term strength of the national economy were dispelled as more than half of all respondents expected good times during the year ahead and anticipated the expansion to continue uninterrupted over the next five years. To be sure, consumers do not anticipate accelerating growth rates but rather a continuation of the slower pace of growth that has characterized this recovery. Low unemployment and low inflation rates have made lower income growth rates more acceptable. Moreover, the Great Recession has caused a fundamental change in assessments of economic risks, with consumers now giving greater preference to economic stability relative to economic growth. This is the essential reason why consumers have voiced such positive economic assessments of such a modest pace of economic growth. Overall, the data indicate a 2.6 percent growth rate in real consumption in 2017 and in the first half of 2018.

Gross Domestic Product (GDP)

Real gross domestic product (GDP) increased at an annual rate of 3.0 percent in the third quarter of 2017, according to the "advance" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 3.1 percent.

The increase in real GDP in the third quarter reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, nonresidential fixed investment, exports, and federal government spending. These increases 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, decreased.

The deceleration in real GDP growth in the third quarter primarily reflected decelerations in PCE, in nonresidential fixed investment, and in exports that were partly offset by an acceleration in private inventory investment and a downturn in imports.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. declined 0.2 percent in September to 128.6 (2010=100), following a 0.4 percent increase in August, and a 0.3 percent increase in July.

"The U.S. LEI declined slightly in September for the first time in the last twelve months, partly a result of the temporary impact of the recent hurricanes," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "The source of weakness was concentrated in labor markets and residential construction, while the majority of the LEI components continued to contribute positively. Despite September's decline, the trend in the U.S. LEI remains consistent with continuing solid growth in the U.S. economy for the second half of the year."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1 in September to 115.7 (2010=100), following no change in August, and a 0.1 percent increase in July.

The Conference Board Lagging Economic Index® (LAG) for the U.S. declined 0.1 percent in September to 125.2 (2010=100), following a 0.4 percent increase in August and a 0.1 percent increase in July.

Housing

Existing-Home Sales

After three straight monthly declines, existing-home sales slightly reversed course in September, but ongoing supply shortages and recent hurricanes muted overall activity and caused sales to fall back on an annual basis, according to the National Association of Realtors®.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, rose 0.7 percent to a seasonally adjusted annual rate of 5.39 million in September from 5.35 million in August. Last month's sales pace was 1.5 percent below a year ago and was the second slowest over the past year (behind August).

Single-family home sales climbed 1.1 percent to a seasonally adjusted annual rate of 4.79 million in September from 4.74 million in August, but were still 1.2 percent under the 4.85 million pace a year ago. The median existing single-family home price was $246,800 in September, up 4.2 percent from September 2016.

Existing condominium and co-op sales decreased 1.6 percent to a seasonally adjusted annual rate of 600,000 units in September, and were 3.2 percent below a year ago. The median existing condo price was $231,300 in September, which was 4.1 percent above a year ago.

Lawrence Yun, NAR chief economist, says closings mustered a meager gain in September, but declined on an annual basis for the first time in over a year (July 2016; 2.2 percent). "Home sales in recent months remain at their lowest level of the year and are unable to break through, despite considerable buyer interest in most parts of the country," he said. "Realtors® this fall continue to say the primary impediments stifling sales growth are the same as they have been all year: not enough listings – especially at the lower end of the market – and fast-rising prices that are straining the budgets of prospective buyers."

Added Yun, "Sales activity likely would have been somewhat stronger if not for the fact that parts of Texas and South Florida – hit by Hurricanes Harvey and Irma – saw temporary, but notable declines."

The median existing-home price for all housing types in September was $245,100, up 4.2 percent from September 2016 ($235,200). September's price increase marks the 67th straight month of year-over-year gains.

Total housing inventory at the end of September rose 1.6 percent to 1.90 million existing homes available for sale, but still remains 6.4 percent lower than a year ago (2.03 million) and has fallen year-over-year for 28 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.

"A continuation of last month's alleviating price growth, which was the slowest since last December (4.5 percent), would improve affordability conditions and be good news for the would-be buyers who have been held back by higher prices this year," said Yun.

First-time buyers were 29 percent of sales in September, which was down from 31 percent in August, 34 percent a year ago and matches the lowest share since

September 2015. 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.

"Nearly two-thirds of renters currently believe now is a good time to buy a home, but weakening affordability and few choices in their price range have made it really difficult for more aspiring first-time buyers to reach the market," said Yun.

"There's no way around the fact that any proposal that marginalizes the mortgage interest deduction and eliminates state and local tax deductions essentially disincentives homeownership and is a potential tax hike on millions of middle-class homeowners," said Brown. "Reforming the tax code is a worthy goal, but it should not lead to the middle class, who primarily build wealth through owning a home, footing the bill. Instead, Congress should be looking at ways to ensure more creditworthy prospective buyers are able to achieve homeownership and enjoy its personal and wealth-building benefits."

Regional

September existing-home sales in the Northeast were at an annual rate of 720,000 (unchanged from August), and were 1.4 percent below a year ago. The median price in the Northeast was $274,100, which was 4.8 percent above September 2016.

In the Midwest, existing-home sales rose 1.6 percent to an annual rate of 1.30 million in September, and were 1.5 percent below a year ago. The median price in the Midwest was $195,800, up 5.4 percent from a year ago.

Existing-home sales in the South slipped 0.9 percent to an annual rate of 2.13 million in September, and were 2.3 percent lower than a year ago. The median price in the South was $215,100, up 4.6 percent from a year ago.

Existing-home sales in the West increased 3.3 percent to an annual rate of 1.24 million in September (unchanged from a year ago). The median price in the West was $362,700, up 5.0 percent from September 2016.

New Residential Sales

Sales of new single-family houses in September 2017 were at a seasonally adjusted annual rate of 667,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 18.9 percent above the revised August rate of 561,000 and was 17.0 percent above the September 2016 estimate of 570,000. Compared to September 2016 sales, privately-owned house sales were up 54.8 percent in the Northeast, 23.1 percent in the South, and 4.4 percent in the West, with sales off in the Midwest 2.7 percent.

The median sales price of new houses sold in September 2017 was $319,700. The average sales price was $385,200.

The seasonally-adjusted estimate of new houses for sale at the end of September was 279,000. This represents a supply of 5.0 months at the current sales rate.

Housing Starts

The U.S. Census Bureau and the Department of Housing and Urban Development jointly announced that privately-owned housing starts in September were at a seasonally adjusted annual rate of 1,127,000. This was 4.7 percent below the revised August estimate of 1,183,000, but was 6.1 percent above the September 2016 rate of 1,062,000. Single-family housing starts in September were at a rate of 829,000; this was 4.6

percent below the revised August figure of 869,000. Compared to September 2016, single-family starts were up 17.7 percent in the Northeast, 10.5 percent in the Midwest, and 26.1 percent in the West. Starts were off 5.6 percent in the South.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for September 2017, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $483.9 billion, an increase of 1.6 percent from the previous month, and 4.4 percent above September 2016. Total sales for the July 2017 through September 2017 period were up 3.9 percent from the same period a year ago.

Retail trade sales were up 1.7 percent from August 2017, and up 4.7 percent from last year. Gasoline Stations were up 11.4 percent from September 2016, while Building Materials and Garden Equipment and Supplies Dealers were up 10.7 percent from last year.

Adjusted sales for furniture and home furnishings stores were down just a tick from August sales, but were up 1.7 percent from September 2016 sales. For the nine months, sales at these stores were up 3.8 percent.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.5 percent in September 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.

The gasoline index increased 13.1 percent in September and accounted for about three-fourths of the seasonally adjusted all items increase. Other major energy component indexes were mixed, and the food index rose slightly.

The index for all items less food and energy increased 0.1 percent in September. The shelter index continued to increase, and the indexes for motor vehicle insurance, recreation, education, and wireless telephone services also rose. These increases more than offset declines in the indexes for new vehicles, household furnishings and operations, medical care, and used cars and trucks.

The all items index rose 2.2 percent for the 12 months ending September; the 12-month change has been accelerating since it was 1.6 percent in June. The 12-month change in the index for all items less food and energy remained at 1.7 percent for the fifth month in a row. The energy index rose 10.1 percent over the past 12 months, its largest 12-month increase since the period ending March 2017. The food index increased 1.2 percent over the last year.

Employment

The unemployment rate declined to 4.2 percent in September, and total nonfarm payroll employment changed little (-33,000), according to the U.S. Bureau of Labor Statistics report. A sharp employment decline in food services and drinking places and below-trend growth in some other industries likely reflected the impact of Hurricanes Irma and Harvey.

The unemployment rate decreased by 0.2 percentage point to 4.2 percent in September, and the number of unemployed persons declined by 331,000 to 6.8 million. Both measures were down over the year.

The number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged in September at 1.7 million and accounted for 25.5 percent of the unemployed.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in September increased 2.2 percent to $238.7 billion, according to the U.S. Census Bureau announcement. This increase, up three of the last four months, followed a 2.0 percent August increase. Excluding transportation, new orders increased 0.7 percent. Excluding defense, new orders increased 2.0 percent. Transportation equipment, also up three of the last four months, led the increase.

Shipments of manufactured durable goods in September, up four of the last five months, increased 1.0 percent to $240.5 billion. This followed a 0.7 percent August increase. Transportation equipment, up two of the last three months, led the increase.

According to the final report for August issued by the Bureau, new orders for furniture and related products were up 1.4 percent year-to-date, with shipments up 1.8 for the eight months.

Executive Summary

After several months of growth in new orders, our recent survey of residential furniture manufacturers and distributors indicated a bit slower growth in August. The increase in orders in August was 1 percent following increases of 11 percent in July, 6 percent in June and 8 percent in May. This August increase, though small, marked the 13th straight month of increased orders when compared to the same month a year ago.

Year-to-date, new orders remained 6 percent ahead of the same period a year ago. For the first 8 months of 2016, new orders were up 1 percent over the first 8 months of 2015. Approximately 70 percent of the participants have reported increased orders year-to-date.

Shipments for August 2017 were up 5 percent over August 2016 and up 23 percent over July 2017. The large increase over July is due to the fact that many of the participants take a week off for the July 4th holiday. Year-to-date, shipments remained 5 percent ahead of the same period a year ago. Approximately 75 percent of the participants have reported increased shipments year-to-date.

Backlogs fell 5 percent from July as the dollar amount of shipments exceeded new orders in August. Backlogs were 6 percent ahead of August 2016, down from 8 percent reported in the July to July comparison.

Receivable levels were 7 percent higher than August 2016, a bit out of line with the increase in shipments, but this is likely a timing issue considering the increases in August over July shipments. We expect these levels to come back in line next month.

Inventories were up 3 percent over August 2016 and flat compared to July levels. Overall, inventories appear in line with the increase in orders and shipments.

Factory and warehouse payrolls and the number of employees seem in line with payrolls only up 2 percent in the August to August comparison, as well as year-to-date. The number of factory and warehouse employees was actually down 3 percent, the same as last month.

National

Housing

After three straight monthly declines, existing-home sales rose 0.7 percent in September 1.5 percent below a year ago. The results for September were primarily blamed on lack of inventories and fast rising prices.

Regionally, sales in the Northeast were unchanged from August but down 1.4 percent from a year ago. Midwest sales were up 1.6 percent but down 1.5 percent from a year ago. Sales in the South were down 0.9 percent and were 2.3 percent lower than a year ago. Sales in the West were up 3.3 percent and even with a year ago.

The report indicated that sales would have been somewhat stronger if not for the fact that parts of Texas and South Florida – hit by hurricanes Harvey and Irma – saw temporary but notable declines.

New single-family house sales were stronger with September sales up 18.9 percent over August and 17 percent ahead of a year ago. Sales were up in the Northeast, South and West but fell 2.7 percent in the Midwest compared to September 2016 sales.

Privately owned housing starts in September were 4.7 percent below August but were 6.1 percent ahead of September 2016. Single-family starts were up nicely in all regions except the South, which was off 5.6 percent compared to September 2016.

Other

The advance report for September retail and food services indicated an increase of 1.6 percent over August and up 4.4 percent over September 2016. Retail trade sales were up 1.7 percent over August and up 4.7 percent over September 2016.

According to this report, sales at furniture and home furnishings stores were down slightly from August but were up 1.7 percent over September 2016. Sales at these stores were up 3.8 percent year-to-date through September.

The Consumer Price Index for all urban consumers rose 0.5 percent in September and was up 2.2 percent over the last twelve months for all items. The index for all items less food and energy increased only 0.1 percent. The twelve month change in the index for all items less food and energy was at 1.7 percent. The gasoline index was up substantially.

The unemployment rate dropped to 4.2 percent while total nonfarm payroll employment was little changed in September. The number of unemployed persons dropped 331,000.

The advance estimate for GDP indicated a 3.0 percent increase in the third quarter following a 3.1 percent increase in the second quarter.

The Conference Board Leading Economic Index dropped 0.2 percent in September. The decline, the first one in the last twelve months, was attributed to the effects of the hurricanes.

Consumer Confidence

The Conference Board Consumer Confidence Index, which had improved slightly in September, increased in October to 125.9 up from 120.6 in September with both the Present Situation and Expectation Index increasing.

The Director of Economic Indicators said that consumer confidence increased to the highest level in almost 17 years (December 2000 at 128.6).

The Michigan Survey of Consumers dropped slightly in October but remained at the highest level since the start of 2004.

Thoughts

We thought we had a very good High Point Furniture Market. Of course, for most, it takes several weeks to determine exactly how good it was depending on orders, but overall the mood seemed very good and most exhibitors and retailers we talked to seemed happy with product.

We hear from many that retail had seemed to soften somewhat in September and early October. It was hard to tell how much impact the hurricanes and fires had on these remarks, as it was not only Houston and southern and western Florida that were hit, but also surrounding areas.

With the latest consumer confidence report so positive, it seems that business should be good. And in fact, at the manufacturer/distributor level, it has certainly been decent at least through August. Our report showing 13 months of increased orders seemed to show that.

We should begin to feel some of the effects of the recovery from the hurricanes and fires in the next few months. Overall, most seem to feel that the economy should be good on into 2018.

Estimated Business Activity (Millions of Dollars)						
	2017			2016		
	August	July	8 Months	August	July	8 Months
New Orders	2,238	2,115	18,099	2,216	1,904	17,028
Shipments	2,376	2,101	18,311	2,255	1,910	17,393
Backlog (R)	1,942	2,054		1,840	1,902	

Key Monthly Indicators			
	August 2017 From July 2017 Percent Change	August 2017 From August 2016 Percent Change	8 Months 2017 Versus 8 Months 2016 Percent Change
New Orders	+6	+1	+6
Shipments	+23	+5	+5
Backlog	-5	+6	
Payrolls	+17	+2	+2
Employees	–	-3	
Receivables	+5	+7	
Inventories	–	+3	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2016				
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
August	+1	+5	+6	-3