

# Furniture Insights®

## Monthly Results

### New Orders

New orders rebounded in October 2017, according to our latest survey of residential furniture manufacturers and distributors. New orders were up 8 percent over October 2016 after falling 10 percent in September versus September 2016. The August increase was 1 percent over August 2016, while July orders were up 11 percent and June's were up 6 percent. The High Point Market was one week earlier this year so that could have had some impact on the increases in orders in October.

Also, a reminder that the September decline was comparing to September 2016, when orders were up 14 percent. Some 62 percent of the participants reported declines in September. The October results were due to approximately 76 percent of the participants reporting increases in orders.

Year to date, new orders were up 5 percent over the same period a year ago, up from 4 percent reported last month, though some of that increase is due to rounding to closest percent. Approximately 67 percent of the participants have now reported increased orders year to date. This was up from 61 percent reporting through September.

### Shipments and Backlogs

Shipments also increased 8 percent in October 2017 compared to October 2016. That increase followed a 4 percent increase in September, 5 percent in August and 10 percent in July. Since shipments eventually turn into dollars, the consistent increases is a good thing. Shipments for the month were up for 76 percent of the participants, the same percent as orders.



Year to date, shipments were up 5 percent over the same period a year ago, the same as reported last month. Some 69 percent of the participants reported increased shipments year to date.

Backlogs in October increased 4 percent over September as the dollar amount of orders increased more than shipments. Backlogs were down 2 percent from last year following a 4 percent decrease reported last month.

## Furniture Insights®

A Monthly Newsletter

**Smith Leonard PLLC**

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

4035 Premier Drive, Suite 300  
High Point, North Carolina 27265  
Telephone (336) 883-0181 | Fax: (336) 841-8764  
E-Mail: [ksmith@smith-leonard.com](mailto:ksmith@smith-leonard.com)

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### **Receivables and Inventories**

Receivable levels increased 1 percent over October 2016, so very much in line with shipments. September receivable levels were out of line last month so it was good to see them back in line.

Inventories were 5 percent higher than last October and down 2 percent from September. We mentioned last month that the levels seemed a bit high, but it looks like last month was a timing issue as the October levels seem reasonable.

### **Factory and Warehouse Employees and Payroll**

Factory and warehouse payrolls were up 4 percent over October 2016, but remained 2 percent ahead of last year, year to date. The number of factory and warehouse employees remained level with both September 2017 as well as with October 2016 levels. Both of these key indicators seem very much in line with current conditions.

## **National**

### **Consumer Confidence**

The Conference Board Consumer Confidence Index® decreased in December, following a modest improvement in November. The Index now stands at 122.1 (1985 = 100), down from 128.6 in November. The Present Situation Index increased from 154.9 to 156.6, while the Expectations Index declined from 111.0 last month to 99.1 this month.

“Consumer confidence retreated in December after reaching a 17-year high in November,” said Lynn Franco, Director of Economic Indicators at The Conference Board. “The decline in confidence was fueled by a somewhat less optimistic outlook for business and job prospects in the coming months. Consumers’ assessment of current conditions, however, improved moderately. Despite the decline in confidence, consumers’ expectations remain at historically strong

levels, suggesting economic growth will continue well into 2018.”

Consumers’ appraisal of present-day conditions was slightly more positive in December. The percentage saying business conditions are “good” increased marginally from 35.0 percent to 35.2 percent, while those saying business conditions are “bad” decreased marginally, from 12.3 percent to 12.1 percent. Consumers’ assessment of the labor market was mixed. Those claiming jobs are “plentiful” decreased from 37.5 percent to 35.7 percent, while those claiming jobs are “hard to get” also decreased, from 16.8 percent to 15.2 percent (a 16-year low).

Consumers’ optimism about the short-term outlook declined sharply in December. The percentage of consumers anticipating business conditions to improve over the next six months declined from 23.1 percent to 20.2 percent, while those expecting business conditions to worsen increased from 6.7 percent to 9.2 percent.

Consumers’ outlook for the job market was also less upbeat than in November. The proportion expecting more jobs in the months ahead decreased from 21.3 percent to 18.4 percent, while those anticipating fewer jobs rose from 12.1 percent to 16.3 percent. Regarding their short-term income prospects, the percentage of consumers expecting an improvement increased from 20.3 percent to 22.3 percent, while the proportion expecting a decrease also rose, from 7.6 percent to 8.9 percent.

### **University of Michigan Surveys of Consumers**

Surveys of Consumers chief economist, Richard Curtin, said “Consumer confidence continued to slowly sink in December, with most of the decline among lower income households. The extent of the decline was minor, with the December figure just below the average for 2017 (95.9 versus 96.8). Indeed, the average in 2017 was the highest

since 2000, and only during the long expansions of the 1960's and 1990's was confidence significantly higher. The recent strength was due to the second highest assessments of current economic conditions since 2000. This strength was offset by a slight increase in uncertainty about future economic prospects. Tax reform was spontaneously mentioned by 29 percent of all respondents, with nearly an equal split between positive and negative impacts on economic prospects. Party affiliation was the dominant correlate of people's assessments of the tax legislation, with the long term economic outlook the most negatively affected. Buying plans for durables and vehicles remained unchanged at favorable levels. Most consumers will know more about the revised tax code when the new paycheck withholding amounts take effect in early 2018. While the mostly small gains in take-home pay may not spark an uptick in optimism, those gains would act to dampen any renewed pessimism. Overall, the data indicate that real personal consumption expenditures will expand by 2.6 percent in 2018."

### **Leading Economic Indicators**

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.4 percent in November to 130.9 (2010 = 100), following a 1.2 percent increase in October, and a 0.1 percent increase in September.

"The U.S. LEI rose again in November, suggesting that solid economic growth will continue into the first half of 2018," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "In recent months, unemployment insurance claims have returned to pre-hurricane levels. In addition, improving financial indicators, new orders in manufacturing and historically high consumer

sentiment have propelled the U.S. LEI even higher."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.3 percent in November to 116.5 (2010 = 100), following a 0.3 percent increase in October, and a 0.1 percent increase in September.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.1 percent in November to 125.6 (2010 = 100), following a 0.3 percent increase in October and a 0.1 percent decline in September.

## **Housing**

### **Existing-Home Sales**

Existing-home sales surged for the third straight month in November and reached their strongest pace in almost 11 years, according to the National Association of Realtors®. All major regions except for the West saw a significant hike in sales activity last month.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, jumped 5.6 percent to a seasonally adjusted annual rate of 5.81 million in November from an upwardly revised 5.50 million in October. After last month's increase, sales are 3.8 percent higher than a year ago and are at their strongest pace since December 2006 (6.42 million).

Single-family home sales grew 4.5 percent to a seasonally adjusted annual rate of 5.09 million in November from 4.87 million in October, and were 3.2 percent above the 4.93 million pace a year ago. The median existing single-family home price was \$248,800 in November, up 5.4 percent from November 2016.

Existing condominium and co-op sales increased 14.3 percent to a seasonally adjusted annual rate of 720,000 units in

November, and were 7.5 percent above a year ago. The median existing condo price was \$242,500 in November, which was 8.8 percent above a year ago.

Lawrence Yun, NAR chief economist, says home sales in most of the country expanded at a tremendous clip in November. "Faster economic growth in recent quarters, the booming stock market and continuous job gains are fueling substantial demand for buying a home as 2017 comes to an end," he said. "As evidenced by a subdued level of first-time buyers and increased share of cash buyers, move-up buyers with considerable down payments and those with cash made up a bulk of the sales activity last month. The odds of closing on a home are much better at the upper end of the market, where inventory conditions continue to be markedly better."

The median existing-home price for all housing types in November was \$248,000, up 5.8 percent from November 2016 (\$234,400). November's price increase marks the 69<sup>th</sup> straight month of year-over-year gains.

Total housing inventory at the end of November dropped 7.2 percent to 1.67 million existing homes available for sale, and is now 9.7 percent lower than a year ago (1.85 million) and has fallen year-over-year for 30 consecutive months. Unsold inventory is at a 3.4-month supply at the current sales pace, which is down from 4.0 months a year ago.

"The anticipated rise in mortgage rates next year could further cut into affordability if these staggeringly low supply levels persist," said Yun. "Price appreciation is too fast in a lot of markets right now. The increase in homebuilder optimism must translate to significantly more new construction in 2018 to help ease these acute inventory shortages."

First-time buyers were 29 percent of sales in November, which is down from 32 percent both in October and a year ago. NAR's *2017 Profile of Home Buyers and Sellers* – released earlier this year – revealed that

the annual share of first-time buyers was 34 percent.

"The elevated presence of investors paying in cash continues to add a layer of frustration to the supply and affordability headwinds aspiring first-time buyers are experiencing," said Yun. "The healthy labor market and higher wage gains are expected to further strengthen buyer demand from young adults next year. Their prospects for becoming homeowners will only improve if more lower-priced and smaller-sized homes come onto the market."

## Regional

November existing-home sales in the Northeast leaped 6.7 percent to an annual rate of 800,000 (unchanged from a year ago). The median price in the Northeast was \$273,600, which was 4.0 percent above November 2016.

In the Midwest, existing-home sales jumped 8.4 percent to an annual rate of 1.42 million in November, and were 6.8 percent below a year ago. The median price in the Midwest was \$196,100, up 8.8 percent from a year ago.

Existing-home sales in the South expanded 8.3 percent to an annual rate of 2.34 million in November, and were 4.0 percent higher than a year ago. The median price in the South was \$216,200, up 4.8 percent from a year ago.

Existing-home sales in the West declined 2.3 percent to an annual rate of 1.25 million in November, but were still 2.5 percent above a year ago. The median price in the West was \$375,100, up 8.2 percent from November 2016.

## New Residential Sales

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced that sales of new single-family houses in November 2017 were at a seasonally adjusted annual rate of

733,000, according to current estimates. This was 17.5 percent above the revised October rate of 624,000 and was 26.6 percent above the November 2016 estimate of 579,000.

The seasonally-adjusted estimate of new houses for sale at the end of November was 283,000. This represents a supply of 4.6 months at the current sales rate.

Comparing November 2017 to November 2016, sales in the Northeast were up 53.3 percent, 32.5 percent in the South, 22.8 percent in the West, while sales in the Midwest were flat.

### **Housing Starts**

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced that privately-owned housing starts in November were at a seasonally adjusted annual rate of 1,297,000. This was 3.3 percent above the revised October estimate of 1,256,000, and was 12.9 percent above the November 2016 rate of 1,149,000. Single-family housing starts in November were at a rate of 930,000; this was 5.3 percent above the revised October figure of 883,000.

Single-family starts were up 9.2 percent in the Midwest, 11.5 percent in the South and 8.9 percent in the West, while starts in the Northeast were flat compared to November 2016.

### **Retail Sales**

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for November 2017, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$492.7 billion, an increase of 0.8 percent from the previous month, and 5.8 percent above November 2016. Total sales for the September 2017 through November 2017 period were up 5.2 percent from the same period a year ago.

Retail trade sales were up 0.8 percent from October 2017, and were up 6.3 percent from last year. Gasoline stations were up 12.2 percent from November 2016, while building materials and garden equipment and supplies dealers were up 10.7 percent from last year.

Sales on an adjusted basis at furniture and home furnishings stores were up 8.4 percent in November over November 2016 and up 4.6 percent year to date. Retail trade sales year to date in total were up 4.4 percent.

### **Consumer Prices**

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.4 percent in November on a seasonally adjusted basis, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index rose 2.2 percent.

The energy index rose 3.9 percent and accounted for about three-fourths of the all items increase. The gasoline index increased 7.3 percent, and the other energy component indexes also rose. The food index was unchanged over in November, with the index for food at home declining slightly.

The index for all items less food and energy increased 0.1 percent in November. The shelter index continued to rise, and the indexes for motor vehicle insurance, used cars and trucks, and new vehicles also increased. The indexes for apparel, airline fares, and household furnishings and operations all declined in November.

The all items index rose 2.2 percent for the 12 months ending November. The index for all items less food and energy rose 1.7 percent, a slight decline from the 1.8-percent increase for the period ending October. The energy index rose 9.4 percent over the last 12 months, and the food index rose 1.4 percent.

## **Employment**

Total nonfarm payroll employment increased by 228,000 in November, and the unemployment rate was unchanged at 4.1 percent, according to the report from the U.S. Bureau of Labor Statistics. Employment continued to trend up in professional and business services, manufacturing, and health care.

The unemployment rate held at 4.1 percent in November, and the number of unemployed persons was essentially unchanged at 6.6 million. Over the year, the unemployment rate and the number of unemployed persons were down by 0.5 percentage point and 799,000, respectively.

The number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged at 1.6 million in November and accounted for 23.8 percent of the unemployed. Over the year, the number of long-term unemployed was down by 275,000.

## **Durable Goods Orders and Factory Shipments**

New orders for manufactured durable goods in November increased \$3.1 billion or 1.3 percent to \$241.4 billion, according to the U.S. Census Bureau announcement. This increase, up three of the last four months, followed a 0.4 percent October decrease. Excluding transportation, new orders decreased 0.1 percent. Excluding defense, new orders increased 1.0 percent. Transportation equipment, also up three of the last four months, drove the increase, \$3.3 billion or 4.2 percent.

Shipments of manufactured durable goods in November, up six of the last seven months, increased \$2.4 billion or 1.0 percent to \$244.5 billion. This followed a 0.5 percent October increase. Transportation equipment, up two of the last three months, led the increase, \$2.1 billion or 2.6 percent.

According to the final report, shipments of furniture and related products were up 4.4

percent in October 2017 versus October 2016 and were up 2.2 percent year to date. Orders for the products were up 3.8 percent for the month versus last year and up 1.5 percent year to date.

**Executive Summary**

After falling 10 percent in September 2017 compared to September 2016, new orders increased 8 percent over October 2016, according to our latest survey of residential furniture manufacturers and distributors. Remember that the 10 percent decline in September was a bit misleading as the September 2016 orders were up 14 percent over September 2015. The 8 percent increase followed the September decline but also followed increases of 1 percent in August, 11 percent in July and 6 percent in June.

With the High Point Market a week earlier in October this year versus last year, there could be some reason for part of the increase in orders. Approximately 76 percent of the participants reported increased orders in October. New orders were up 5 percent year to date with some 67 percent of the participants reporting increased orders.

Shipments also increased 8 percent over October 2016, following increases of 4 percent in September, 5 percent in August, and 10 percent in July, compared to the previous year. Shipments for October were up for 76 percent of the participants. Year to date, shipments were up 5 percent over the first 10 months of the year with some 69 percent of the participants reporting increases.

Backlogs in October increased 4 percent over September as the dollar amount of orders exceeded the dollar amounts of shipments. Compared to October 2016, backlogs were down 2 percent in October 2017.

Receivable levels increased 1.0 percent over October 2016, very much in line with shipments. Inventories were up 5 percent over October 2016 and down 2 percent from

September. October levels seemed to get back in line with current business conditions.

Factory and warehouse employee numbers and payroll also seemed in line with payrolls up only 2 percent year to date. The number of employees was level in October 2016.

**National****Consumer Confidence**

The Conference Board Consumer Confidence Index decreased in December after small improvement in November. The index was at 122.1 down from 128.6 in November. The Present Situation Index increased to 156.6 from 154.9 but the Expectations Index declined from 111.0 last month to 99.1 in December. The November Index reached a 17-year high so the slight decline was not all bad.

Consumers reported a higher percent thinking business conditions are good but the jobs assessment fell slightly. Short term, the expectations for business declined as well as the jobs outlook. The short term outlook for income did increase slightly.

The University of Michigan Surveys of Consumers report was very similar to the Conference Boards. The overall index declined with the current conditions index improving ever so slightly while the expectations index declined.

It is important to note that even with the slight decrease, consumer confidence remains at very high levels, the highest since 2000. The University of Michigan report notes that current levels were only exceeded in the 1960's and 1990's.

## Housing

Existing-home sales increased for the third straight month in November and reached the strongest pace in 11 years. All regions of the country except for the West had significant increase in sales. Single-family sales were up 3.2 percent over a year ago. Existing condo and co-op sales were up 7.5 percent over a year ago.

The level of first-time buyers was down with increases in cash and move-up buyers with larger down payments making up a good portion of the sales. The median price was up 5.8 percent from November 2016, marking the 69<sup>th</sup> straight month of year-over-year gains.

New house sales were up 26.6 percent over November 2016 sales. Sales of these houses were up 53.3 percent in the Northeast, 32.5 percent in the South and 22.8 percent in the West, while sales were flat in the Midwest.

Single-family housing starts were also up nicely rising 5.3 percent above October. All privately-owned housing starts were 12.9 percent higher than November 2016.

## Other

The advance report for U.S. retail and food services sales in November indicated a 0.8 percent increase over October sales and a 5.8 percent increase over November 2016. Retail trade sales were up 6.3 percent over November 2016, led by gasoline stations at a 12.2 percent increase and building materials and garden equipment and supplies dealers up 10.7 percent from last year.

Sales at furniture and home furnishings stores were up 8.4 percent over November 2016 and up 4.6 percent year to date. Retail trade sales in total were up 4.4 percent year to date.

The Consumer Price Index for All Urban Consumers rose 0.4 percent in November with the all items index increasing 2.2

percent over the last 12 months. The energy index accounted for three-fourths of the all items increase. The index for all items less food and energy only increased 0.1 percent in November. For the last 12 months, this index only rose 1.7 percent while the energy index rose 9.4 percent over that time. The food index rose 1.4 percent.

The unemployment rate held steady in November at 4.1 percent as total nonfarm payroll employment rose by 228,000. Over the year, the unemployment rate was down 0.5 percent and the number of unemployed persons declined 799,000.

## Thoughts

The October results of our survey may have been a bit better than expected, but year to date orders and shipments are really pretty decent at the 5 percent level. While business may not be as consistent as we would all hope for, overall, when we sit back and talk with most people, they do admit that business is not all that bad. Certainly that is not true for all, but as our survey showed a high percentage are showing some sort of growth and the vast majority of those reporting declining orders and shipments are not off a huge percentage.

We hear from time to time that “retail is slow” but the national retail reports do not indicate that. So as we continue to talk with our clients, the key is to have most of those retailers as customers who are keeping the national numbers up.

Furniture Today posted a report stating that Mastercard reported a 5.1 percent increase in home furniture and furnishings sales during the holiday selling season.

Even with the slight decline in consumer confidence, both reports are a very high level. The strong stock market continues to help people feel better about spending. And the housing markets continue to prove that



people are feeling better about home buying in spite of low inventories and higher prices.

If my trips to retailers with my grandkids the last couple of days is any indication, there have been an awful lot of people in the stores and on the roads. While some may be returning goods, it sure seemed like a lot were buying. Let's hope that some of the bustle was in some furniture stores, which the grandkids didn't care to go to.

Estimated Business Activity (Millions of Dollars)						
	2017			2016		
	October	September	10 Months	October	September	10 Months
<b>New Orders</b>	2,411	2,343	22,853	2,232	2,603	21,863
<b>Shipments</b>	2,210	2,365	22,884	2,039	2,270	21,702
<b>Backlog (R)</b>	2,087	1,940		2,129	1,936	

Key Monthly Indicators			
	October 2017 From September 2017 Percent Change	October 2017 From October 2016 Percent Change	10 Months 2017 Versus 10 Months 2016 Percent Change
<b>New Orders</b>	+3	+8	+5
<b>Shipments</b>	-3	+8	+5
<b>Backlog</b>	+4	-2	
<b>Payrolls</b>	-7	+4	+2
<b>Employees</b>	-	-1	
<b>Receivables</b>	-1	+1	
<b>Inventories</b>	-2	+5	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
<b>2016</b>				
<b>October</b>	+1	-6	+1	-
<b>November</b>	+8	+4	+2	+2
<b>December</b>	+11	+15	+1	-1
<b>2017</b>				
<b>January</b>	-	+2	-	-2
<b>February</b>	+4	+3	+1	-2
<b>March</b>	+12	+6	+8	-2
<b>April</b>	+7	+2	+11	-2
<b>May</b>	+8	+7	+11	-2
<b>June</b>	+6	+7	+6	-1
<b>July</b>	+11	+10	+8	-3
<b>August</b>	+1	+5	+6	-3
<b>September</b>	-10	+4	-4	-2
<b>October</b>	+8	+8	-2	-1