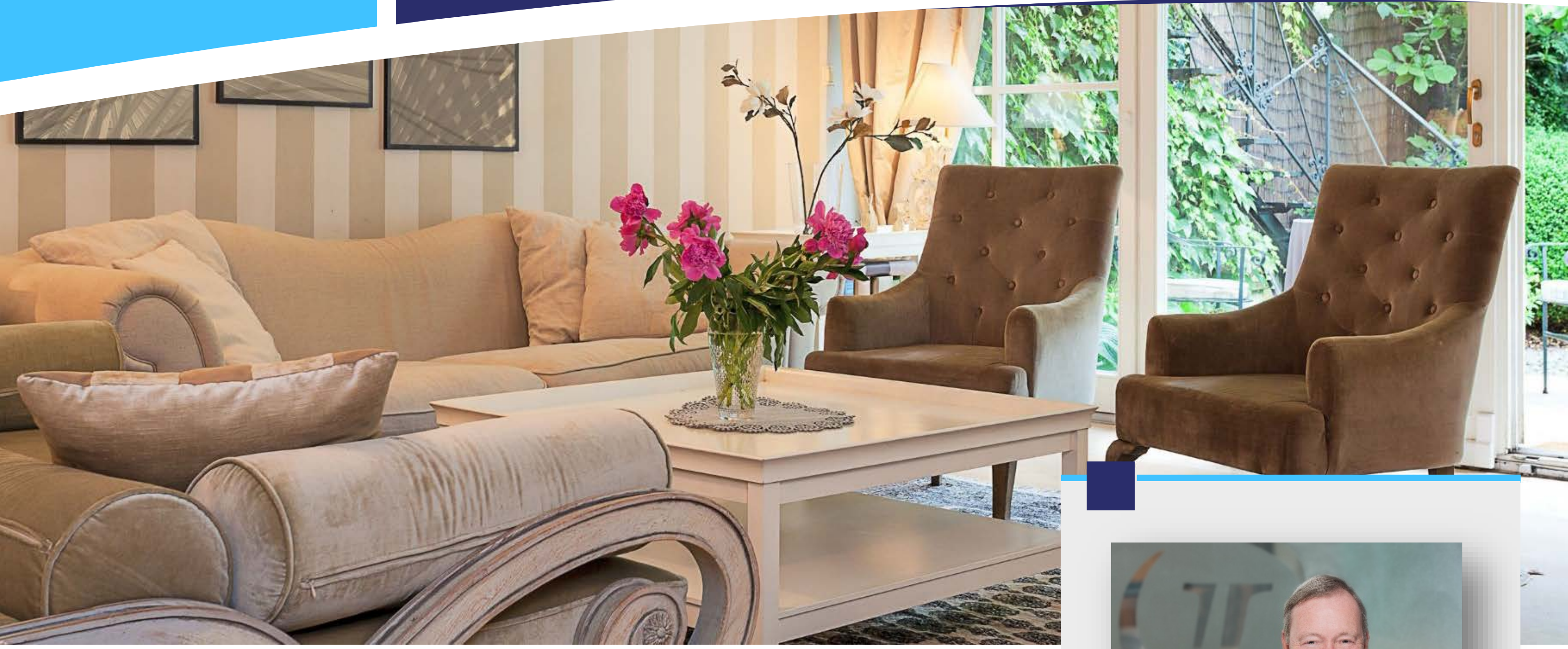
FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

January 2018



Ken Smith, CPA

HIGHLIGHTS - EXECUTIVE SUMMARY

According to our latest survey of residential furniture manufacturers and distributors, new orders in November 2017 increased 11% over new orders in November 2016. This increase followed an 8% increase reported last month, when we wondered if maybe High Point Market dates may have had an impact. The November to November increase was also good as last year November 2016 new orders were 8% higher than November 2015 results.

Year to date, new orders are up 5% over the same period a year ago. Last year through November, new orders were up 3% over the previous year. Year to date, new orders were up for some 69% of the participants.

Shipments were up 4% over November 2016 following an 8% increase reported last month. Shipments remained 5% ahead of last year for year to date. Some two-thirds of the participants reported increased shipments year to date.

Backlogs increased 6% over October as new order dollars exceeded shipping dollars. November backlogs were 1% higher than November 2016.

Receivable and inventory levels were well within expectations considering current business conditions. In addition, factory and warehouse payrolls and number of employees remained at very reasonable levels with payrolls up 2% year to date.

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EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board Consumer Confidence Index increased slightly in January following a decline in December. Consumers assessment of current conditions decreased slightly but remained at historically strong levels. Expectations improved and most felt that the solid pace of growth in 2017 will continue into 2018.

Consumer optimism about the short term improved following a decline in December. The outlook for the job market was less negative. Regarding short term income prospects, the percentage expecting improvement decreased but those expecting a decrease in income also declined.

The University of Michigan Survey of Consumers was down slightly but for the most part was basically unchanged. The slight decline was somewhat affected by the tax reforms and some doubts as to the impact on consumers.

Housing

Existing-home sales fell slightly in December in most of the country but for the year, edged up 1.1%. These results made 2017 the best year for sales in 11 years. Single-family homes also fell in December some 2.6% but ended the year 1% above the 2016 pace. The median existing-home sales price was $248,100, up 5.8% from December 2016.

For the year, sales of existing homes were up 1.5% in the Midwest and 3.1% in the South, but were down 2.6% in the Northeast and 0.8% in the West.

New home sales also fell in December but were 14.8% above December 2016 sales. For the December to December comparison, sales were up 10.8% in the Northeast, 15.7% in the South and 18.8% in the West. Sales were down 3.1% in the Midwest. For the year, sales of new homes were up 8.3% over 2016.

Housing starts were off in December in total though starts were up in all regions except the Northeast where they were off 19.0%.

Other

The advance estimate of Gross Domestic Product for the 4th quarter of 2017 reported an expected increase of 2.6%, down slightly from 3.2% for the third quarter. The Conference Board's Leading Economic Index also increased 0.6% following an increase of 0.5% in November and a 1.3% increase in October.

The advance report in U.S. retail and food services sales increased 0.4% in December over November and sales increased 5.4% over December 2016. Sales at furniture and home furnishings stores were up 9.9% over December 2016 and up 4.8% year to date.

The Consumer Price Index for all Urban Consumers (CPI-U) increased 0.1% in December and increased 2.1% for all items in the last 12 months. The index for all items less food and energy increased 1.8% with food up 1.6% and energy up 6.9%.

The employment rates held steady in December adding 148,000 jobs. The unemployment rate was unchanged at 4.1%.

EXECUTIVE SUMMARY, CONT.

Thoughts

The November results of our survey continued to bring favorable news, with orders up nicely and shipments following along. Year to date results continue to show nice steady growth. While not robust, the growth rate is a pretty good pace. While still not good for all participants, those experiencing declines for the most part are at levels that can be dealt with.

The retail results from national reports continue to show nice steady growth as well. As with our participants, from what we hear from conversations, the steady growth is not necessarily across the board, but at least, overall, the results are favorable.

As usual with this time of year, we will see weather affecting results for another month or so. Since December and January have been fairly rough in many areas of the country along with the issues in California, let's hope February and March are not too harsh so that the steady growth we were seeing through November can continue.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders results were again very positive with overall new orders increasing 11% in November 2017 over November 2016 orders. This increase followed an 8% increase reported last month after a 10% decrease reported for September 2017 results. We had wondered if the October results were stronger due to the dates of the High Point Market, but it appears the strength in new orders continued through November.

For the month, some 59% of the participants reported increased orders. This was down from 76% reporting increases last month. This month, some of the larger participants reported very strong order increases.

Year to date, new orders remained 5% ahead of last year. Approximately 69% of the participants have reported increased orders in 2017 versus 2016. This was up slightly from last month.

Shipments and Backlogs

Shipments in November were up 4% over shipments in November 2016. This followed an 8% increase reported for October, 4% in September and 5% in August. Increased shipments in November were reported for some 65% of the participants, down from 76% reporting increases last month.

Year to date, shipments remained 5% ahead of the same period a year ago. Increased shipments were reported for two-thirds of the participants.

Backlogs in November increased 6% over October as new orders exceeded shipments in dollars. Backlogs in November were 1% higher than November 2016.

Receivables and Inventories

Receivable levels in November only increased 1% over November 2016 levels in spite of the 4% increase in shipments. Receivables increased 3% over October levels in line with the 4% increase in shipments from October to November.

Inventories increased 2% in November over November 2016 levels but fell 3% from October levels. Inventories, like receivables appear to be in good shape considering current business conditions.

Factory and Warehouse Employees and Payroll

Factory and warehouse payrolls were up 2% over November 2016 payrolls but were actually down slightly from October. The monthly decline was likely due to fewer working days in November, both from the calendar working days and Thanksgiving holidays. Payrolls remained 2% higher year to date.

The number of factory and warehouse employees was even with October levels but was actually down 3% from last year. We think that was likely some timing of the reporting.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2017		
	NOV	OCT	11 MONTHS
New Orders	2,557	2,411	25,410
Shipments	2,304	2,210	25,188
Backlog (R)	2,220	2,087	

	2016		
	NOV	OCT	11 MONTHS
New Orders	2,296	2,232	24,159
Shipments	2,215	2,039	23,917
Backlog (R)	2,205	2,141	

MONTHLY RESULTS, CON'T.

KEY MONTHLY INDICATORS (PERCENT CHANGE)			
	Nov 2017 From Oct 2017	Nov 2017 From Nov 2016	11 Months 2017 vs 11 Months 2016
New Orders	+7	+11	+5
Shipments	+4	+4	+5
Backlog	+6	+1	
Payrolls	-2	+2	+2
Employees	–	-3	
Receivables	+3	+1	
Inventories	-3	+2	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR				
	New Orders	Shipments	Backlog	Employment
2016				
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
September	-10	+4	-4	-2
October	+8	+8	-2	-1
November	+11	+4	+1	-3

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® increased in January, following a decline in December. The Index now stands at 125.4 (1985 = 100), up from 123.1 in December. The Present Situation Index decreased slightly, from 156.5 to 155.3, while the Expectations Index increased from 100.8 last month to 105.5 this month.

"Consumer confidence improved in January after declining in December," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' assessment of current conditions decreased slightly, but remains at historically strong levels. Expectations improved, though consumers were somewhat ambivalent about their income prospects over the coming months, perhaps the result of some uncertainty regarding the impact of the tax plan. Overall, however, consumers remain quite confident that the solid pace of growth seen in late 2017 will continue into 2018."

Consumers' assessment of current conditions was slightly less positive in December. Consumers' assessment of business conditions was mixed. The percentage saying business conditions are "good" decreased slightly from 35.8% to 34.9%, while those saying business conditions are "bad" increased slightly, from 11.7% to 12.7%. Consumers' assessment of the labor market was also mixed. The percentage of consumers claiming jobs are "plentiful" increased from 36.3% to 37.6%, while those claiming jobs are "hard to get" increased marginally, from 16.0% to 16.4%.

Consumers' optimism about the short-term outlook improved in January, following a sharp decline in December. The percentage of consumers anticipating business conditions to improve over the next six months increased marginally, from 21.6% to 22.0%, while those expecting business conditions to worsen increased from 9.0% to 9.8%.

Consumers' outlook for the job market was also less negative. The proportion expecting more jobs in the months ahead remained virtually unchanged at 19.0%, while those anticipating fewer jobs declined from 15.9% to 11.8%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement decreased from 22.7% to 20.4%, while the proportion expecting a decrease also declined, from 9.0% to 7.7%.

University of Michigan Surveys of Consumers

Surveys of Consumers chief economist, Richard Curtin, said "While the preliminary January reading for the Sentiment Index was largely unchanged from last month (-1.5%), consumers evaluated current economic conditions less favorably (-4.6%). This small decrease in current conditions produced a small overall decline. Importantly, the survey recorded persistent strength in personal finances and buying plans, while favorable levels of buying conditions for household durables have receded to preholiday levels in early January, largely due to less attractive pricing.

The Expectations Index remained virtually unchanged at 84.8. Tax reform was spontaneously mentioned by 34% of all respondents; 70% of those who mentioned tax reform thought the impact would be positive, and 18% said it would be negative. The disconnect between the future outlook assessment and the largely positive view of the tax reform is due to uncertainties about the delayed impact of the tax reforms on the consumers. Some of the uncertainty is related to how much a cut or an increase people, especially high income households who live in high-tax states, face.

Near and long term gas price expectations inched upward in early January but remained significantly below their peak. While long term inflation expectation remained at its 2017 average level and short term inflation expectation inched upward, consumers continued to remain very optimistic about the low national unemployment rate."

A DEEPER DIVE – NATIONAL, CON'T.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 2.6% in the fourth quarter of 2017, according to the "advance" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 3.2%.

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

The deceleration in real GDP growth in the fourth quarter reflected a downturn in private inventory investment that was partly offset by accelerations in PCE, exports, nonresidential fixed investment, state and local government spending, and federal government spending, and an upturn in residential fixed investment. Imports, which are a subtraction in the calculation of GDP, turned up.

A DEEPER DIVE - HOUSING

Existing-Home Sales

Existing-home sales subsided in most of the country in December, but 2017 as a whole edged up 1.1% and ended up being the best year for sales in 11 years, 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, increased 1.1% in 2017 to a 5.51 million sales pace and surpassed 2016 (5.45 million) as the highest since 2006 (6.48 million).

In December, existing-home sales slipped 3.6% to a seasonally adjusted annual rate of 5.57 million from a downwardly revised 5.78 million in November. After last month's decline, sales were still 1.1% above a year ago.

Single-family home sales declined 2.6% to a seasonally adjusted annual rate of 4.96 million in December from 5.09 million in November, but were still 1.0% above the 4.91 million pace a year ago. The median existing single-family home price was $248,100 in December, up 5.8% from December 2016.

Existing condominium and co-op sales fell 11.6% to a seasonally adjusted annual rate of 610,000 units in December, but were still 1.7% above a year ago. The median existing condo price was $236,500 in December, which was 6.4% above a year ago.

Lawrence Yun, NAR chief economist, says the housing market performed remarkably well for the U.S. economy in 2017, with substantial wealth gains for homeowners and historically low distressed property sales. "Existing sales concluded the year on a softer note, but they were guided higher these last 12 months by a multi-year streak of exceptional job growth, which ignited buyer demand," said Yun. "At the same time, market conditions were far from perfect. New listings struggled to keep up with what was sold very quickly, and buying became less affordable in a large swath of the country. These two factors ultimately muted what should have been a stronger sales pace."

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NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.6% in December to 107.0 (2016 = 100), following a 0.5% increase in November, and a 1.3% increase in October.

"The U.S. LEI continued rising rapidly in December, pointing to a continuation of strong economic growth in the first half of 2018. The passing of the tax plan is likely to provide even more tailwind to the current expansion," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "The gains among the leading indicators have been widespread, with most of the strength concentrated in new orders in manufacturing, consumers' outlook on the economy, improving stock markets and financial conditions."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.3% in December to 102.8 (2016 = 100), following a 0.1% increase in November, and a 0.4% increase in October.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.7% in December to 104.0 (2016 = 100), following a 0.1% increase in November, and a 0.3% increase in October.

A DEEPER DIVE – HOUSING, CON'T.

Existing-Home Sales, Con't.

The median existing-home price for all housing types in December was $246,800, up 5.8% from December 2016 ($233,300). December's price increase marks the 70th straight month of year-over-year gains.

Total housing inventory at the end of December dropped 11.4% to 1.48 million existing homes available for sale, and is now 10.3% lower than a year ago (1.65 million) and has fallen year-over-year for 31 consecutive months. Unsold inventory is at a 3.2-month supply at the current sales pace, which is down from 3.6 months a year ago and is the lowest level since NAR began tracking in 1999.

First-time buyers were 32% of sales in December, which is up from 29% in November and unchanged from a year ago. NAR's *2017 Profile of Home Buyers and Sellers* – released in late 2017 – revealed that the annual share of first-time buyers was 34%.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage inched higher for the third straight month to 3.95% in December from 3.92% in November. The average commitment rate for all of 2017 was 3.99%.

Regional

December existing-home sales in the Northeast fell 7.5% to an annual rate of 740,000, and are now 2.6% below a year ago. The median price in the Northeast was $261,400, which was 3.0% above December 2016.

In the Midwest, existing-home sales dipped 6.3% to an annual rate of 1.33 million in December, but were still 1.5% above a year ago. The median price in the Midwest was $191,400, up 7.8% from a year ago.

Existing-home sales in the South decreased 1.7% to an annual rate of 2.30 million in December, but were still 3.1% higher than a year ago. The median price in the South was $221,200, up 5.8% from a year ago.

Existing-home sales in the West declined 1.6% to an annual rate of 1.20 million in December, and were 0.8% below a year ago. The median price in the West was $367,400, up 7.3% from December 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 December 2017 were at a seasonally adjusted annual rate of 625,000, according to current estimates. This was 9.3% below the revised November rate of 689,000, but was 14.1% above the December 2016 estimate of 548,000.

An estimated 608,000 new homes were sold in 2017. This was 8.3% above the 2016 figure of 561,000.

The median sales price of new houses sold in December 2017 was $335,400. The average sales price was $398,900.

For the December 2017 to December 2016 comparison, sales were up 10.8% in the Northeast, 15.7% in the South and 18.8% in the West, but fell 3.1% in the Midwest.

HOUSING UPDATE

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 December were at a seasonally adjusted annual rate of 1,192,000. This was 8.2% below the revised November estimate of 1,299,000, and was 6.0% below the December 2016 rate of 1,268,000. Single-family housing starts in December were at a rate of 836,000; this was 11.8% below the revised November figure of 948,000. The December rate for units in buildings with five units or more was 352,000.

Comparing December 2017 to December 2016, single-family starts were up 3.5% overall with starts up 1.6% in the Midwest, 2.2% in the South and 13.7% in the West. Starts were off 19.0% in the Northeast.

A DEEPER DIVE – HOUSING, CON'T.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1% in December 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 2.1% before seasonal adjustment.

An increase of 0.4% in the shelter index accounted for almost 80% of the 1-month all items increase. The food index rose in December, with the indexes for food at home and food away from home both increasing. The energy index, which rose sharply in November, declined in December as the gasoline index decreased.

The index for all items less food and energy increased 0.3% in December, its largest increase since January 2017. Along with the shelter index, the indexes for medical care, used cars and trucks, new vehicles, and motor vehicle insurance were among those that increased in December. The indexes for apparel, airline fares, and tobacco all declined over the month.

The all items index rose 2.1% for the 12 months ending December, compared to 2.2% for the 12 months ending November. The index for all items less food and energy increased 1.8% over the last year; the 12-month change has now been either 1.7 or 1.8% for eight consecutive months. The food index rose 1.6% over the past year; the index for energy increased 6.9%, with all of its major component indexes rising during 2017.

Employment

Total nonfarm payroll employment increased by 148,000 in December, and the unemployment rate was unchanged at 4.1%, according to the U.S. Bureau of Labor Statistics report. Employment gains occurred in health care, construction, and manufacturing.

In December, the unemployment rate held was 4.1% for the third consecutive month. The number of unemployed persons, at 6.6 million, was essentially unchanged over the month. Over the year, the unemployment rate and the number of unemployed persons were down by 0.6 percentage point and 926,000, respectively.

The number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 1.5 million in December and accounted for 22.9% of the unemployed. Over the year, the number of long-term unemployed declined by 354,000.

HOUSING UPDATE, CON'T.

Retail Sales

According to the U.S. Census Bureau, advance estimates of U.S. retail and food services sales for December 2017, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $495.4 billion, an increase of 0.4% from the previous month, and 5.4% above December 2016. Total sales for the 12 months of 2017 were up 4.2% from 2016. Total sales for the October 2017 through December 2017 period were up 5.5% from the same period a year ago.

Retail trade sales were up 0.3% from November 2017, and were up 5.6% from last year. Nonstore retailers were up 12.7% from December 2016, while building materials and garden equipment and supplies dealers were up 9.9% from last year.

Sales at furniture and home furnishings stores were up 9.9% over December 2016 and up 4.8% year to date.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in December increased $7.0 billion or 2.9% to $249.4 billion, according to the U.S. Census Bureau report for December. This increase, up four of the last five months, followed a 1.7% November increase. Excluding transportation, new orders increased 0.6%. Excluding defense, new orders increased 2.2%. Transportation equipment, also up four of the last five months, led the increase, at 7.4%.

Shipments of manufactured durable goods in December, up seven of the last eight months, increased $1.5 billion or 0.6% to $246.8 billion. This followed a 1.3% November increase. Fabricated metal products, also up seven of the last eight months, led the increase, at 1.5%.

According to the final report for November, shipments of furniture and related products were up 4.4% in November over November 2016 and up 2.4% year to date. Orders were up 5.6% over November 2016 and up 1.9% year to date.