MarketBriefing

2016 Issue 10 News from the month of September 2016

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U.S. ECONOMY

EXCHANGE RATES SEPTEMBER 30, 2016

Euro	1 Euro = $1.118	$1.00 = 0.894 Euros
Canadian Dollar	1 CAD = $0.759	$1.00 = 1.316 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 101.082 Yen
Chinese Yuan	1 Yuan = $0.149	$1.00 = 6.669 Yuan
Mexican Peso	1 Peso = $0.051	$1.00 = 19.605 Pesos

MARKET WATCH SEPTEMBER 30, 2016

DOW	18,308	-0.5%
NASDAQ	5,312	1.9%
S&P 500	2,168	-0.1%

The markets churned during the month, but shrugged off the jitters and ended September little changed. However, all three indexes turned in positive results for the third quarter. The DOW shed 0.5% for the month but rose 2.1% for the quarter, NASDAQ gained 1.9% for the month and 9.7% for the quarter and the S&P, the index most closely followed by economists, fell 0.1% for the month, but rose 3.3% for the quarter.

CONSUMER CONFIDENCE RISES

The New-York based Conference Board's Consumer Confidence Index rose to 104.1 in September after rising to an upwardly revised 101.8 in August. It was a post-recession high for the index. The Present Situation Index rose to 128.5 after rising to an upwardly revised 125.3 in August. The Expectations Index improved to 87.8 from a downwardly revised 86.1. The Conference Board said that consumers were generally more upbeat about the short-term outlook but pretty neutral about longer-term prospects for the economy and business conditions. Economists say a level of 90 indicates that the economy is on solid footing and a level of 100 or more indicates growth. Analysts caution that the real driver behind consumer spending is income growth and that labor market trends are a more accurate predictor of consumer behavior.

CONSUMER SPENDING FALLS 0.1%

Consumer spending fell 0.1% in August after rising 0.3% in July, in line with economists' expectations. It was the first decline in consumer spending in seven months. Disposable income, including wages and salaries, went up 0.1% after rising a downwardly revised 0.3% in July. Income has been rising slowly but steadily over the year. The personal saving rate rose to 5.7% in August from a downwardly revised 5.6% in July. The personal consumption expenditures price index (PCE), the inflation measure preferred by the Federal Reserve, rose 0.1% in August, after rising by the same amount in June and July. The index has risen 1.0% over the past year, but is still well below the Fed's 2% target. Consumer spending is closely watched by economists because it accounts for 70% of U.S. economic activity.

CONSUMER PRICES RISE 0.2%

The Consumer Price Index (CPI) rose 0.2% in August after being unchanged in July and was up 1.1% from August 2015. Core prices, which strip out volatile food and energy costs, rose 0.3% in August after edging up 0.1% in July and were up 2.3% from August 2016. It was the largest increase in core prices since last February. Economists said that the report showed that domestic price pressures were building very gradually. The increases in prices overall were primarily due to a jump in medical care costs, which rose 1%, the biggest one-month increase since 1984.

UNEMPLOYMENT RISES TO 5.0%

The unemployment rate rose to 5.0% in September after remaining at 4.9% for several months and the economy added 156,000 new jobs, in line with economists' expectations. Job gains for July and August were revised, resulting in a net loss of 7,000 jobs. Retail added 22,000 jobs in September, and the retail sector has added 317,000 new jobs this year. Job gains have averaged 192,000 over the past three months. The average hourly earnings rate rose 0.2%. Wages have risen 2.6% over the past 12 months.

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DURABLE GOODS ORDERS FLAT

New orders for durable goods were flat in August after rising a downwardly revised 3.6% in July and were down 0.6% year-to-date compared to the same period last year. Analysts had expected durable goods orders to drop 1.5%. Orders for non-defense capital goods excluding aircraft, a category that serves as a proxy for business investment spending, rose 0.6% in August after rising 1.6% in July. Economists noted that three consecutive months of increases in this category are an encouraging sign that business capital investment activity might be on the verge of a long-awaited rebound. However, core orders ex transportation were down 0.4% in August. Shipments of core capital goods, which factor into GDP calculations for business spending, fell 0.4% in August after being unchanged in July. A 21.9% drop in demand for civilian aircraft helped keep overall orders for durable goods flat in August. The durable goods report is often both volatile and subject to sharp revisions.

CHICAGO PMI RISES

The Chicago PMI rose 2.7 points to 54.2 in September after falling to 51.5 in August. The increase was driven by a sharp gain in Production, which rose 7.3 points to 59.8, the highest reading since January. New Orders and Order Backlogs were little changed, with Backlogs remaining below the breakeven level of 50. Inventories were relatively stable, with the indicator rising just above 50. Prices Paid rose slightly, an indication of early signs of pipeline inflation after four consecutive monthly declines left Prices Paid at a five-month low. Most panelists (79%) said that the November Presidential Election is having little impact on business.

WHOLESALE PRICES UNCHANGED

The Producer Price Index (PPI) was unchanged in August after falling 0.4% in July and was flat compared to August 2015. The core PPI, which excludes food, energy and trade services, rose 0.1% in August after rising 0.3% in July and was up 1.0% in the 12 months through August. Falling food and energy prices helped keep inflation tame. **The PPI for inputs to construction dropped 0.2% in August** after rising 0.1% in July and was down 1.7% from August 2015.

Q2 GDP UP 1.4%

GDP grew 1.4% in the second quarter according to the third and final reading, which was up from the 1.1% growth reported in the second reading and exceeded analysts' expectations. The economy grew 0.8% in the first quarter. Consumer spending was revised downward slightly to 4.3% from the 4.4% increase reported in the second reading. Consumer spending accounts for 70% of economic activity. Companies sliced another $50.2 billion off inventories, subtracting 1.2% from GDP on an annualized basis. It was the fifth straight quarter that inventories weighed on output. After tax corporate profits were revised up to show a 0.6% decline rather than the 1.2% drop last estimated.

JOB OPENINGS HIT RECORD HIGH

Job openings jumped 4% to a record high of 5.87 million in July, up from 5.6 million in June, according to the July Job Openings and Labor Turnover Summary (JOLTS) report. Total hiring rose 1% in July to 5.22 million, a good pace but down from 1.4% a year ago. The gap between the 4% jump in open jobs and the 1% increase in hiring could suggest that many employers are having a tough time finding enough qualified workers to fill open positions, which could force employers to increase pay in order to attract more applicants. On a three-month moving average basis, job openings are up 5.3% over the past year compared to a 16% jump over the same time period last year. The retail sector has seen the biggest jump in openings over the past year, and openings among durable goods manufacturers are at a 12-month high. There were 4.8 million hires in the private sector and 4.9 million total separations, including 2.7 million quits. The number of job openings has consistently exceeded the number of hires. Quits are typically voluntary separations, and an increase in quits generally indicates that people are more confident about their ability to find another job. The JOLTS report is one of Fed Chair Janet Yellen's preferred economic indicators.

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FED KEEPS RATES STEADY

The Fed left interest rates unchanged at 0.25% to 0.50% at their meeting in September, but sent a strong signal that rates could rise before the end of the year. Central Bank policyholders have appeared to be increasingly divided over the timing for another rate hike, and the vote of 7 to 3 was unusual. Fed Chairman Janet Yellen indicated that she expects one rate increase this year if the job market continues to improve and there are no new major risks. Fed watchers generally agree that the rate increase will come after the November elections, at the Fed meeting in December. Yellen went on to emphasize that the lack of an increase did not indicate a lack of confidence in the U.S. economy. The Fed also predicted a less aggressive rise in interest rates next year and in 2018, cutting the forecast for long-term rates from 3.0% to 2.9%. In December 2015 the Fed signaled that four rate increases were likely this year.

HOUSEHOLD INCOME RISES

U.S. household income rose 5.2% in 2015, the first increase in household income in eight years. Despite the gain, the median household income of $56,516 was still below the median income of $57,423 in 2007 when the Great Recession began. Median incomes picked up in all regions of the U.S., across all age groups and for most ethnic and racial groups. The proportion of Americans living in poverty fell sharply, from 14.8% in 2014 to 13.5% last year. In the early years of the recovery many job gains were in low-paying sectors, such as fast food and retail. But in 2014 and 2015 the growth of middle-income jobs in sectors such as construction and shipping outpaced gains in both lower-paying and higher-paying categories.

HOUSING & CONSTRUCTION

HOUSING STARTS FALL 5.8%

Housing starts fell 5.8% In August to a seasonally adjusted annual rate of 1.14 million after rising to 1.21 million units in July. **Single-family starts fell 6%** to a seasonally adjusted annual rate of 722,000 units in August after rising to 770,000 in July. Single-family starts are up 9% on a year-to-date basis. Multifamily starts fell 5.4% to 420,000 units after rising to 441,000 units in July. **Regional starts were mixed.** Starts rose 7.6% in the Northeast, 5.6% in the Midwest and 1.8% in West. Starts fell 14.8% in the South. Economists blamed the drop in starts to flooding in Texas and Louisiana. Excluding the South, the nation's largest home building market, starts were up 4.2%.

BUILDING PERMITS FALL 0.4%

Building permits fell 0.4% in August to a seasonally adjusted annual rate of 1.1 million after falling to 1.15 million in July and were down 2.3% from August 2015. **Single-family permits rose 3.7% in August** to a rate of 737,000 and multifamily permits dropped 7.2% to 402,000 units after rising to 441,000 units in July. **Regional permit issuance was mixed.** Permits increased 5.1% in the Northeast, 4.2% in the Midwest and 0.7% in the West. Permits fell 3.4% in the South. Permits have been above the one million level for fourteen consecutive months, the longest stretch in seven years.

NEW-HOME SALES FALL 7.6%

Sales of new single-family homes fell 7.6% in August to a seasonally adjusted annual rate of 609,000 units. Small revisions to the previous three months showed that sales were less than reported in May and June but rose more dramatically than the 12.4% reported in July. In total, revisions to the previous three months reduced the annual sales pace by 4,000 units. The inventory of new homes for sale was 235,000 in August, a 4.6-month supply at the current sales pace, down from 244,000 homes in July. **Regional sales were mixed.** Sales fell 34.3% in the Northeast, 12.3% in the South and 2.4% in the Midwest. Sales rose 8% in the West. New home sales in the South may have been impacted by heavy rains and flooding in Louisiana and other parts of the region. The new home market is being hamstrung by low levels of inventory; furthermore, much of the inventory in the pipeline is either under construction or not yet started. According to an analysis by Wells Fargo, only 56,000 completed new homes are available for sale across the country, a near historic low. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previ-

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ously-owned homes, which are calculated when a contract closes.

EXISTING HOME SALES FALL 0.9%

Existing home sales fell 0.9% in August to a seasonally adjusted annual rate of 5.33 million after dropping to 5.39 million in July. Sales were up 0.8% from August 2015. Total housing inventory at the end of August fell 3.3% to 2.04 million existing homes, 10.1% below August 2015, and a 4.6-month supply at the current sales pace, down from a 4.7-month supply in July. Inventory has now declined year-over-year for 15 consecutive months. **Regional sales were mixed.** Sales rose 6.1% in the Northeast. Sales dropped 0.8% in the Midwest, 2.7% in the South and 1.6% in the West. Low levels of inventory remain very challenging and are helping to keep prices up, reducing affordability. The inventory problem is considered one of the biggest obstacles to a robust housing recovery.

BUILDER CONFIDENCE RISES TO 65

Builder confidence rose six points in September to 65 from a downwardly revised reading of 59 in August. All three HMI (National Association of Home Builders/Wells Fargo Housing Market Index) components moved higher in September, with current sales expectations rising six points to 71, sales expectations for the next six months rising five points to 71 and buyer traffic rising four points to 48. The three-month moving averages for HMI scores rose in three out of four regions. The Northeast and South each rose one point, to 42 and 64, respectively. The West rose four points to 73. The Midwest was unchanged at 55. It was the eighteenth consecutive month the HMI remained above 50.

MORTGAGE RATES FALL

The 30-year mortgage rate fell slightly to 3.42% at the end of September after falling to 3.43% at the end of August. In September of last year 30-year rates averaged 3.85%. Mortgage rates have been below 3.5% for ten consecutive weeks. Yields on 10-Year Treasury Notes, which affect mortgage rates, continued to fall after the Fed declined to raise interest rates in September. For the first time since 2012 mortgage originations are expected to top $2 trillion in 2016. Near-historic low mortgage interest rates are spurring a burst of refinance activity. Low rates are also supporting strong home sales, which are expected to reach their highest level since 2006. House price growth also remains strong and low levels of inventory across many markets will continue to put upward pressure on house prices for the foreseeable future, according to Freddie Mac. Their forecast calls for a $60 billion, or 11%, increase in third quarter mortgage originations relative to the second quarter, and for total originations to reach $2 trillion in 2016.

POWER TOOL INDUSTRY

ROBERT BOSCH

Bosch is partnering with General Electric to promote the connected industry concept of the Internet of Things. Representatives of GE Digital and Bosch Software Innovations have signed an agreement that aims to promote openness and growth in Industry 4.0.

Robert Bosch is partnering with software giant SAP to work together on improving connectivity and standards involving products used on the Internet of Things (IoT). Bosch is investing in building sensor systems and software that can analyze data from equipment such as forklifts, windmills, factory equipment and cars to speed up operations.

Bosch opened their expanded development center in the heart of Pittsburgh, Pennsylvania. Mike Mansuetti, president of Bosch in North America, said Pittsburgh is one of the smartest cities in the U.S., known for its innovative strength and start-up culture. Approximately 130 associates now work at the new central location, which will focus on developing internet and security technologies for the Internet of Things. In addition to basic research, the new location also houses the Bosch subsidiary Akustica which develops and markets MEMS microphones. The market for these tiny high-performance microphones, which are found in smartphones, tablets, wearables, and other devices, is growing rapidly. Bosch also recently

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expanded their technical center in Plymouth, Michigan, which focuses on key technologies for the mobility of the future.

STANLEY BLACK & DECKER

From the Morgan Stanley Laguna Conference, where SB&D was represented by CFO Don Allan:

Tools and Storage represents a very significant portion of their business, but they still see a lot of opportunity, because when you look at the business globally, they have just a 14% market share, despite being the market leader. They believe innovation and powerful brands will help them increase their global footprint and market share.

They have done more than 100 acquisitions in the last 12 years and their back office is not as efficient as it could be.

They estimate that the rollout of the new DeWalt FlexVolt system will contribute about $75 million in revenue in the back half of this year and about $200 million next year. They started shipping product in mid-August. They do not believe they will exceed estimates for 2016 because they are at shipping capacity for the line.

The initial rollout is not the entire family of tools that work with the system. There are about 20 different tools being rolled out along with the battery packs, and there will be subsequent phases of additional tools that will be rolled out in smaller collections of three to five tools at a time next year.

They do not know yet how much FlexVolt will cannibalize the corded tool business for both them and their competitors. It's possible that ten years from now many of these corded products will have become obsolete. However, if you look at the conversion from nickel cadmium to lithium ion batteries, there are still nickel cadmium driven tools on the market, but now they only account for 10% to 20% of the total cordless markets.

FlexVolt costs 33% to 50% more than a comparable corded tool, which is another reason it could take awhile for users to switch over. People will want to see how the tools perform in the real world before making major financial commitments.

High single-digit organic growth for the Tools and Storage segment is due to gains from innovations and revenue synergies still being generated by the Stanley and Black & Decker merger, which have allowed SB&D to outperform low to mid-single digit growth for the tools and storage market in the U.S. and emerging markets and low growth in Europe.

They are constantly evaluating concepts they believe have the potential to be breakthrough innovations, and typically have 20 to 30 different concepts in various stages of evaluation at any one time. FlexVolt is the innovation they went forward with in the past two years. In order to get that one breakthrough, they have to pursue many concepts.

Their mechanical lock business is profitable and grows 3% to 5% organically every year, but they are number four in the market in the U.S., and are therefore evaluating whether or not they should stay in the business. They hope to be able to announce a decision in the next three months to keep the entire security business, sell the entire security business or potentially sell only the mechanical lock business.

Their acquisition pipeline is quite busy at the moment, and they could use proceeds from the sale of the lock business for an acquisition and also put some proceeds towards buybacks. There is nothing that is off-limits for tool acquisitions now; while there are plenty of opportunities outside the U.S., there are also some attractive opportunities within the U.S., although some of them could have antitrust implications that could complicate a deal.

NEWELL BRANDS

From Barclay's Global Consumer Conference:

They have gone from less than 2% core sales growth in 2011 to more than 5% core sales growth over the past 18 months and have improved margins from around 12.5% to close to 14%.

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Their top three competitors in their core categories, which include Writing, Home Fragrance, Baby, Food Storage & Preparation, Appliances & Cookware and Outdoor & Recreation, represent less than 50% of the total market, whereas in fast-moving consumer goods the top three tend to represent 75% of the market.

NR has a 60% share of voice in their core categories with less than 3% advertising investment as a percentage of revenue; in consumer goods the leader generally has a 28% share of voice with roughly 10% of revenue invested in advertising. This means they have a very low cost of growth.

They now expect to deliver $500 million in cost synergies by early 2019 or about three years from completing the deal, compared to their original guidance of three to four years.

They have established portfolio and geographic priorities with their board of directors and are beginning to act on them. They are going to focus on big opportunities and prioritize resources and people accordingly.

They will exit or dispose of between $250 and $300 million worth of businesses. That's why they have core sales guidance for the full year projected at 3% to 4% growth but core growth over the first half projected at 5.1%.

50% of their $10 billion in U.S. revenue is concentrated among 20 retailers. Today they have four different selling structures to reach those 20 retailers; by the end of the year they will have integrated teams in place to handle several different channels, including home centers.

Ecommerce will occupy the entire second floor of their new corporate headquarters building in Hoboken, New Jersey.

Other News:

Newell Brands put 10% of their portfolio up for sale in early October, including the vast majority of their Tools and Storage segment. The business they want to sell include Winter Sports, Heaters, Humidifiers and Fans and the Consumer Storage Container business. These business account for approximately $1.5 billion in annual sales.

Tom Sanford is NB's new vice president of communications. He joins NB from executive roles at a series of large, multinational companies, including Aetna, Pfizer and Johnson & Johnson as well as communications giant Burson-Marseteller.

TTI/TECHTRONIC INDUSTRIES

Sales for the six months ending June 30 rose 8.6% to $2.69 billion. The Power Equipment segment saw global sales rise 12.6% to $2.2 billion.

Milwaukee Tools sales rose 20.2%, driven by double-digit growth in their Consumer Power Tool and Outdoor Products brands.

TRIMBLE

Trimble is making new inroads into the Internet of Things (IoT). Their most recent introduction is a series of wireless, battery-powered sensors for water monitoring applications. They use low-power, long-range wireless communications to remotely measure and monitor water, wastewater and groundwater systems. The sensors track, measure and report water usage. The sensors can wirelessly report data down to five minute intervals.

RETAIL

RETAIL SALES FALL 0.3%

Retail sales fell 0.3% in August after being upwardly revised to a 0.1% increase from essentially flat in July and were up 1.9% year-over-year. Online retail sales fell 0.3% in August after rising 1.3% in July but were up 10.9% from August 2015. Core retail sales, which exclude automobiles, gasoline, building materials and food services, fell 0.1% after a downwardly revised 0.1% drop in July. Core retail sales correspond most closely with the consumer spending component of GDP. Sales fell in 8 out

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of 13 categories, including building materials. Results were well below analysts' expectations, and indicate that consumer spending could moderate in the third quarter. Retail sales account for about one-third of all spending, with services making up the other two-thirds.

HOLIDAY SHOPPING OUTLOOK

Nearly one-third of consumers and nearly half of those who are parents, began their holiday shopping before Labor Day, according to the second annual Holiday Consumer Pulse Poll from Rubicon Project. According to the survey of U.S. shoppers, Americans plan to spend an average of $1,175 this holiday season, a 12% jump from last year. Consumers are slightly more likely to buy several smaller items rather than one big ticket gift. The survey found that 73% plan to shop online and more than one in three plan to shop on a mobile device. A surprising 22% of shoppers and 28% of millennials do not plan to shop in stores at all this year. The online and mobile-only shoppers are predominately millennial males who will most likely shop for gift cards (64%), apparel/accessories (57%), toys (46%) and technology (37%). More respondents (47%) plan to shop on Cyber Monday compared to 42% planning to shop on Black Friday. As of August 22% of respondents had started researching Cyber Monday deals, up 10% from last year.

HOLIDAY SALES FORECAST

Total holiday sales will rise between 3.6% and 4% to more than $1 trillion this holiday season (November through January) according to Deloitte's annual retail holiday sales forecast. Ecommerce sales are expected to increase between 17% and 19%, reaching $96 billion to $98 billion. Deloitte says that big retailers will face increased competition from small and medium-sized niche companies that are proving popular with consumers. Deloitte forecast that digital interactions will influence 67%, or $661 billion, of in-store sales this holiday season, due to shoppers' growing use of digital devices, including tablets and smartphones. Deloitte says that large ecommerce players and digital platforms such as Pinterest and Facebook are shaping what people regard as a great shopping experience—a fast, highly-selected assortment with instant access to visuals, information and buying sources. Deloitte does not think the November presidential election will have a negative impact on sales, and retailers may benefit from a pickup in postelection consumer spending.

ONLINE SALES FORECAST

According to eMarketer's holiday sales preview forecast, ecommerce will rise 17% this year and surpass 10% of total U.S. holiday sales for the first time. They forecast holiday retail ecommerce sales will reach $94.71 billion, accounting for 10.7% of total holiday retail sales. Mobile commerce sales in the U.S. will increase 43.2% to $115.92 billion, accounting for 29.1% of total ecommerce sales and 2.4% of total retail sales. By 2020 eMarketer expects retail mobile commerce to account for nearly half of all retail online sales. Most mobile growth is coming from smartphones; this year mobile sales on smartphones will exceed tablets for the first time, totaling $67.23 billion for the entire year. Analysts say the increase is due to bigger screens, better mobile design and simpler payment options. Improving app search and payment systems should keep mobile growing steadily. Retail sales on tablets are also growing, but not at the pace of overall ecommerce sales.

THE HOME DEPOT

From the Goldman Sachs Global Retail Conference:

They have not seen much impact from lower oil prices and the pull back in exploration. They saw some weakness at the end of the second quarter in North Dakota, and actually took down a pop up store they had in Williston. Major markets like Texas have not been affected.

The Interline acquisition gives them an opportunity in the $50 billion MRO market, of which they currently own less than 5%. They had a 42% vendor overlap with Interline. Right now they are in a pilot test enabling Interline products at the Pro Desk in Home Depot stores. Later in 2017 they will work on their capability to let customers order from both Home Depot and Interline and have everything delivered in one shipment. Some of the segments Interline is strong in, including multifamily, institutional and hospitality, have the need to be able to order daily; there is also periodic scheduled maintenance, and

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eventually periodic capital upgrades that involve major projects.

The Interline acquisition also allowed them to immediately acquire a very professional outside sales force; they are using Interline to help define what the future of outside sales and services will look like at The Home Depot.

They are defining their marketing to Pro customers and beginning to take advantage of the digital capabilities that they have. It is much more targeted and personalized marketing. Some of the new features they are offering, such as the ability to look up inventory in the store, really appeal to busy Pros.

THD identified specific categories that they felt at risk to move to the digital world several years ago, and began to build very specific strategies that extend some of the exclusive relationships they have in the physical channel to the digital one. They want their customers to shop with them whichever way is easiest for the customer.

The video content they've added about products has proved to be very popular with customers and helps drive conversions. They released a new updated app in September that offers more information and better views of the product.

Their ecommerce business has been growing more than $200 million each quarter, and they are a top 10 ecommerce site based on U.S. dollar volume.

Today the do-it-for-me business represents about 4.5% of their total sales, but they see it as a growth opportunity. CEO Craig Menear said that the aging population, among which he included himself, is choosing to have people do work for them that they used to do themselves.

The three elements of the housing market that they watch closely are home volume appreciation, housing turnover and new household formation, all of which continue to provide a tailwind for the business.

Private label products represent less than 20% of their total sales, but offer increased margins and opportunities for innovation. They are and will always be a "brand house."

They have quite a lot of data about their Pro customers, but other than digital marketing, have not done a lot of individual marketing. They do market to groups of people, for example, customers who appear to be remodeling their kitchen or working on their garden.

They believe their research shows that millennials will follow the same patterns as generations before them, but will do it about six years later.

LOWE'S

Argus Research says that Lowe's is outpacing The Home Depot in appliances because Lowe's stores are organized thematically, making it easy for the consumer to buy an entire concept. Argus also states that Lowe's puts more emphasis on appliances than Home Depot does because appliances are a slightly below average margin category at Home Depot, but are average or above at Lowe's, and the fact that they are generally a high ticket item makes promoting them worthwhile.

WALMART

Walmart is cutting about 7,000 back-office store jobs as they centralize invoicing and accounting. WM says that most of the displaced workers should find new jobs that involve direct contact with shoppers, and the change was not a downsizing move, but rather part of their commitment to get more bodies out onto the selling floor. WM tested the program in 500 stores earlier this year.

Walmart paid more than $201 million in second-quarter bonuses to hourly store staff as 99% of stores met targets for cleanliness, faster checkout and better service. A total of 932,000 store employees received quarterly bonuses this year, up from 880,000 in the second quarter of 2016 and 687,000 in fiscal 2015. Walmart has made a number of moves of late to get more bodies out onto the selling floor and focus more on customer service.

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SEARS

Sears reportedly put the Craftsman brand up for sale and is now entertaining bids from companies said to include Stanley Black & Decker, Techtronic Industries, Apex Tool Group and Husqvarna. Bids are due the end of October. Analysts say Craftsman could bring about $2 billion. Cash-strapped Sears is reportedly also exploring options for Kenmore, DieHard and the Sears Home Services businesses.

Sears announced they will begin selling paint again after roughly four years out of the market. Sears also announced plans to bring Craftsman brand into the paint category for the first time. The initial test will be in 23 Sears stores. In June, Sears unveiled plans to put their DieHard brand on automobile tires, the brand's first major expansion in more than a decade.

ACE HARDWARE

Q2 revenues rose 0.6% to a record $1.4 billion. New store growth was the primary driver of the increased revenue. For the first six months of 2016, same-store sales increased 2.4%, primarily as a result of a 2.2% increase in average ticket. Wholesale revenues rose 0.5% to $1.3 billion. Retail revenues from Ace Retail Holdings, which is essentially sales from Westlake Ace Hardware, were up 2.3% to $87.4 million. Comp store sales increased 1.6%, with the largest increase in outdoor living and lawn and garden.

Ace added 42 new domestic stores in the second quarter and cancelled 29 stores, which left Ace with a total domestic store count of 4,315, an increase of 59 stores from the second quarter of 2015.

W.W. GRAINGER

Grainger's daily sales increased 4% in August compared to August 2015 after increasing 3% in July. Growth included 3% from Cromwell Group (Holdings) Limited, acquired September 1, 2015, and a 1% increase from acquisitions and foreign exchange. Organic sales were flat, with a 1% increase from sales of seasonal products offset by a 1% decline in price. Sales in the U.S. were up 1%, sales in Canada were down 14% in U.S. dollars and 16% in local currency.

AMAZON

Amazon plans to open up to 100 pop-up stores in U.S. shopping malls over the next year, according to *Business Insider*. The miniature retail storefronts are a separate effort from the physical bookstore that Amazon opened in Seattle last year and are designed to showcase and sell Amazon's hardware devices, particularly the growingly popular Echo home speaker with digital voice Alexa. At the end of August Amazon had 16 pop-up stores in the U.S. Amazon is recruiting, and job posts say that pop-up stores are out of the test phase and their goal is to expand and grow.

Amazon Prime subscribers spend $1,200 annually compared to non-subscribers, who spend about $500, according to researcher Statista. The estimated 63 million Amazon Prime members represent about $75.6 billion in annual purchasing power; Amazon's revenue last year was $107 billion. The fact that Amazon is now offering monthly membership programs for $10.99 a month is expected to add to the member base; the annual program costs $99.

Amazon is trying out a 30-hour work week that will offer workers benefits, something most retailers avoid with less than full time schedules. Amazon says they are trying to tap into a more diverse workforce of qualified employees who just don't have time for a full-time job, especially mothers. Employees will be paid at 75% of the full-time rate.

Amazon and Wells Fargo ended a partnership to make private student loans just six weeks after it was announced. Spokeswomen for both companies announced that the partnership, which had been more than a year in the making, was abruptly being ended, but no reason was given. Wells Fargo is the second largest private student lender. The program was designed to give members of Amazon's Prime Student program a break on loan rates.

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MARKET TRENDS

CLICK AND MORTAR

Changing customer expectations are changing the face of retail and driving the future of the industry, according to *Chain Store Age*. Some retailers are already working to make retail and online teams seamless; others are still stuck in what CSA calls a "silo" with teams competing against each other for sales. CSA says that for long term success organizations need to unify their channel teams and give them common objectives. Today's customers are much less tolerant than customers were even a decade ago, and now expect everything about their shopping experience to be fast and easy, from the initial product search to the purchase process and final product pick up or delivery. Things like free two-day or same-day delivery and improved online search engines have lowered tolerance for tedious and time consuming in-store experiences. It's almost as if people expect the store to respond with the speed of the website, which is seldom physically possible. When someone is looking for something on the website, they enter search parameters and their choices immediately appear. When someone can't find an item in store, they are often stuck trying to hunt down an associate, who may not know how to find what they're looking for. CSA notes that the deciding factor in a brand's ability to succeed in today's evolving retail environment will be their ability to effectively collect and use data and deliver a seamless and positive omnichannel experience for customers.

START-UPS PICK UP STEAM

Business start-up activity has returned to near pre-recession levels, according to *USA Today*. About 550,000 new businesses were launched each month last year, up from 466,000 in 2013. That's the highest level since 2009, when many start-ups were driven by necessity. Today 84% of entrepreneurs are motivated by opportunity, up from 74% in 2009. There were 398,000 additional employer businesses that were a year old or younger last year, up 7% from 2014. New entrepreneurs are critical to the economy because they are the ones who are most likely to come up with innovations that boost productivity or create new markets.

OMNICHANNEL RETAIL AFFECTS LOGISTICS

The evolution of omnichannel retail is creating a logistics revolution. Companies are investing more in technology and moving towards having more warehouses closer to customers, which generally means more expensive locations and more inventory overall. Shipping products to individuals rather than pallets or truckloads to stores or distribution centers is costlier and more complicated. It requires new methods of inventory organization plus new software that can fulfill multiple online orders efficiently. Fast electronic data and analytics that turn that data into information people can use to make decisions are critical to success. Georgia Tech has partnered with the National University of Singapore to found the Center for Next Generation Logistics in Singapore that will look at global logistics issues, such as how to move a growing number of goods in congested cities. Some innovations include: driverless trucks, platooning (several trucks which follow each other closely to reduce air friction and save fuel) drones and automated guided vehicles used in warehouses and to unload freight in ports.

DIGITAL NATIVE AUDIENCE

***Chain Store Age* recently did an in-depth look at the challenges facing retailers today.** They pointed out that never again will there be a consumer group that was born before the boom of the internet and online shopping. Today's new consumers expect "new" and "now" from the retailers they deal with. CSA dubs these folks the DNA generation—Digital Native Audience. Their research showed that openness to innovation can be predicted by age more than sex, ethnicity or income. They refer to people who came of shopping age before the internet revolution as Digital Immigrants. Their research compared the habits and preferences of Digital Natives (DNA) and Digital Immigrants (DI) and discovered:

- **51% of DNAs use mobile for online purchases** compared to 15% of DIs.
- **57% of DNAs use mobile self checkout** compared to 33% of DIs.

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- **Mobile Apps influence in store purchases for 27% of DNAs** but just 10% of DIs.
- **40% of DNAs are Amazon Prime members** compared to 28% of DIs.

GENERATION Z HAS HIGH EXPECTATIONS

Generation Z is the first generation to grow up online. Gen Z, born in 2001 or later, has grown up with social media and the assumption that there is instant access to almost everything digital, from information to music and videos. They are transferring that expectation for instant gratification to other aspects of life. A new report from Fung Global Retail & Technology says that new technology products and services have quickened the pace of life and widely broadened choices; it is inevitable that the result will be a more demanding, image-conscious consumer. Gen Z currently composes 19% of the U.S. population, and will account for 25% in 2020. Exposure to near-infinite choices and access to apparently endless information will make this generation extremely demanding.

HOW MILLENNIALS USE GIFT CARDS

Nearly three out of five millennials purchased retailer-specific gift cards last year; but rather than gifting the cards, they're keeping them for themselves. Refillable cards were the choice of 53% of 18 to 24-year-olds and 57% of 25 to 34-year-olds. According to the report from Mercator Advisory Group, one factor that is spurring on this trend is the availability of retailer apps that enable users to store retailer-specific gift cards as well as utilize offers available through integrated digital loyalty programs. Mercator says the use of pre-paid cards is a form of budgeting and a departure from generations whose purchases often depended on revolving credit.

THE VOICE OF THE INTERCONNECTED WORLD

Amazon has much bigger plans for the technology behind Echo, their smart speaker whose voice, Alexa, has become a pop culture phenomena. Amazon wants the Alexa Voice Speaker to become an ingredient in devices around the home and beyond, even if they're not made by Amazon. Amazon isn't alone; most big technology companies, including Apple, Google and Microsoft, see their intelligent assistants as powerful new ways for users to interact with devices and internet services, just as smartphone touch screens are. Many tech specialists think that people will be O.K. with a single intelligent assistant in their life, but won't want to bother learning the quirks of two or three of them. That's creating a tech war during which each company is racing to integrate its assistant into as many devices and services as possible.

Amazon says more than 10,000 developers have registered to integrate Alexa into their products. Ford is reportedly working with Amazon to integrate Alexa into its vehicles so drivers can control smart-home features like lights, thermostats and security systems. And Sonos is working on a way to play music through Sonos speakers using Alexa voice control. LG Electronics is partnering with Amazon on smart home services and says that Alexa will work on LG's SmartThinkQ Hub, an LG device used to connect with home appliances over the internet via voice recognition technology. Lenovo has also reportedly been discussing the possibility of incorporating Alexa into computers and other devices. And technological home tinkerers are already tweaking Alexa to do everything from setting a timer in the kitchen to changing the default music player or controlling their wi-fi controlled thermostats.

Apple is reportedly stepping up their plans to release a home-automation device that will compete with Amazon's Echo that has reportedly been in development for two years. Apple's version would use Siri. Apple's version would reportedly have the ability to read aloud emails, send messages and tweets, stream music and provide mapping info. There is reportedly an Apple plan in development called "Invisible Hand" which would let users fully control their devices through a Siri command system within three years.

MORE ADULT KIDS LIVING WITH PARENTS

Adults age 18 to 34 are now more likely to be living with their parents than with a spouse or partner, according to a Pew Research Center analysis of U.S. Census data. In addition, 19% of older millennials (ages 25–34) are still living at home. Nearly one-third (32.1%) of millennials lived with their parents in 2014, while 31.6% lived with a spouse or partner. Fourteen percent lived alone,

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and 22% had another living arrangement, such as living with a roommate or in group housing, such as a college dorm. Housing experts say the trend is driven by struggles to find jobs, student debt and rising college enrollment. And the fact that more kids are living at home longer is prompting more boomers to stay in their single-family homes rather than downsize. A survey by Redfin found that one-fifth of homeowners ages 55 to 64 have adult children living at home.

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