MarketBriefing

2016 Issue 12 News from the month of November 2016

BOSCH
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U.S. ECONOMY

EXCHANGE RATES NOVEMBER 30, 2016

Euro	1 Euro = $1.058	$1.00 = 0.945 Euros
Canadian Dollar	1 CAD = $0.745	$1.00 = 1.343 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 114.173 Yen
Chinese Yuan	1 Yuan = $0.145	$1.00 = 6.089 Yuan
Mexican Peso	1 Peso = $0.049	$1.00 = 20.501 Pesos

MARKET WATCH NOVEMBER 30, 2016

DOW	19,124	5.4%
NASDAQ	5,324	2.6%
S&P 500	2,199	3.4%

All three indexes recorded record highs in November after the DOW initially dropped more than 900 points in after-hours trading when the results of the presidential election became known. The recovery began almost immediately and continued throughout the rest of the month as markets reacted to good economic news and President-elect Trump's promise to go on a building boom and cut corporate taxes and capital gains. The DOW gained 5.4% for the month and closed above 19,000 for the first time, the NASDAQ gained 2.6% to close at 5,324 and the S&P, the index most closely followed by economists, rose 3.4% to close at 2,199.

CONSUMER CONFIDENCE RISES

The New-York based Conference Board's Consumer Confidence Index rebounded strongly in November, rising to 107.1 from an upwardly revised 100.8 in October. The Present Situation Index rose to 130.3 from an upwardly revised 123.1. The Expectations Index rose to 91.7 from an upwardly revised 86.0. The Conference Board said that while the majority of respondents were surveyed prior to the results of the presidential election, those surveyed afterwards did not appear to be affected by the outcome. A more optimistic consumer should be good news for holiday spending. Overall, the sentiment is that the economy will continue to expand in the near-term, but at a moderate pace. 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 RISES 0.3%

Consumer spending rose 0.3% in October after rising an upwardly revised 0.7% in September, slightly below economists' expectations. Core consumer spending, which is adjusted for inflation, increased 0.1% in October after rising 0.5% in September. Overall consumer spending in October was lifted by a 1.0% increase in purchases of long-lasting manufactured goods such as automobiles. Spending on services fell 0.2%. Personal income rose 0.6% last month after increasing 0.4% in September. Wages and salaries advanced 0.5% for the second consecutive month. Savings increased to $860.2 billion from $814.1 billion in September, the highest level since March of this year. The personal consumption expenditures (PCE) price index rose 0.2% after a similar increase in September. In the 12 months through October the PCE price index rose 1.4%, the biggest year-over-year gain since October 2014. Excluding food and energy, the core PCE price index gained 0.1% after rising by the same amount in both September and August. That left the year-over-year increase in the core PCE, the Fed's preferred measure of inflation, at 1.7% in October. Consumer spending is closely watched by economists because it accounts for 70% of U.S. economic activity.

CONSUMER PRICES RISE 0.4%

The Consumer Price Index (CPI) rose 0.4% in October after rising 0.3% in September and was up 1.6% from October 2015. Core prices, which strip out volatile food and energy costs, rose 0.1% in October after rising 0.1% in September and were up 2.1% from October 2015. Core inflation has been in a range between 2.1% and 2.3% since December of last year. More than half of the increase in prices came from a 7% hike in gasoline prices.

UNEMPLOYMENT FALLS TO 4.6%

The unemployment rate dropped to 4.6% in November, a nine-year low and the economy added 178,000 new jobs. However, job gains for September and October were revised down to show a total of 2,000 fewer jobs were created than previously reported. Economists had forecast that payrolls would rise by 175,000 jobs and the unemployment rate would remain at 4.9%. Wage growth slowed, with average hourly earnings falling three cents. The drop lowered the year-over-year gain in wages to 2.5% in November from October's big 2.8% increase, which was the largest rise in nearly 7-1/2 years. As the labor market nears full employment, job gains have slowed from an average of 229,000 per month in 2015 to an average of 180,000 this year. Fed Chair Janet Yellen has said the economy needs to create just under 100,000 jobs a month to keep up with growth in the working-age population. Construction employment increased by 19,000 jobs in November after rising by 14,000 in October. Retail payrolls dropped for the second consecutive month, falling by 8,300. The job report contained nothing that would cause the Fed to delay an expected increase in interest rates in December.

DURABLE GOODS ORDERS JUMP 4.8%

New orders for durable goods jumped 4.8% in October to a seasonally adjusted $239.4 billion after rising an upwardly revised 0.4% in September. October's gain was the fastest pace in a year. The increase exceeded analysts' expectations of a 2.7% gain. Orders for non-defense capital goods excluding aircraft, a category that serves as a proxy for business investment spending, rose 0.4% in October after rising a slightly downwardly revised 1.4% in September. The durable goods report is often both volatile and subject to sharp revisions.

CHICAGO PMI RISES TO 57.6

The Chicago PMI rose 7 points to 57.6 in November from 50.6 in October. It was the lowest level for the index since January 2015. Four of the five barometer components increased, with only Employment falling. New Orders contributed much of the increase, rising 10.7 points to 63.2. Production also rose and recovered virtually all of October's decline. Order Backlogs moved into positive territory and Supplier Deliveries made small gains. Prices Paid fell to 56.8, but remained above the 12-month average of 52.2. Demand for labor fell, with employment slipping back into contraction. The special question asked of the panel in November was how they expected business activity to fare in 2017. Most respondents expected business to grow, but expected growth rates of less than 5%. The November reading marked the sixth month of expansionary business activity in the U.S.

WHOLESALE PRICES UNCHANGED

The Producer Price Index (PPI) was essentially flat in October after rising 0.3% in September and was up 0.8% from October 2015. Analysts had expected the PPI to rise 0.3%. The core PPI, which excludes food, energy and trade services, fell 0.2% in October after rising 0.3% in September and was up 1.2% in the 12 months through October. **The PPI for inputs to construction was down 0.2% for the month of October** and up 0.8% since October 2015.

Q3 GDP RISES 3.2%

GDP grew an upwardly revised 3.2% in the third quarter, faster than the 2.9% growth first reported and the largest gain in two years. Growth was up significantly from 0.8% in the first quarter and 1.4% in the second quarter. The increase exceeded economists' expectations. Consumer spending for the quarter increased 2.8%, up from the 2.1% first reported. Consumer spending accounts for 70% of economic activity. Business investment in plants and equipment remained virtually flat, edging up just 0.1%. Steep cutbacks in spending by energy companies have really held back this category. Q3 consumer prices remained subdued, with overall prices rising 1.4% and core PCE prices up 1.7%, still below the Fed's target of a 2% increase. The personal savings rate remained at 5.7%. Analysts say the data suggests the economy is unlikely to beat 2015's growth of 2.6%, which was the best annual growth since the economy began expanding. The economy has not grown more than 3% since 2005. The nonpartisan Congressional Budget Office projects GDP will grow about 2% annually through 2026. The Atlanta Fed, which produces the GDP Now forecast, upgraded its view, saying that the economy is now on track to grow at a 3.6% annualized pace in the fourth quarter, due to expected stronger consumer spending, upbeat durable goods orders and equipment investments, as well as a smaller trade gap.

JOB OPENINGS EDGE UP

Job openings edged up to 5.49 million in September from a revised 5.45 million in August, according to the Labor Department's monthly Job Openings and Labor Turnover Survey, or JOLTS. Hiring declined to 5.08 million from 5.27 million and the hiring rate dropped to a four-month low of 3.5%. Around 3.07 million Americans quit their jobs, which was little changed from 3 million quits in August. The quits rate remained at 2.1%. Layoffs dropped to 1.47 million from 1.69 million. Analysts noted that the report shows that companies are neither posting a lot of jobs nor letting people go. The 1% rate of dismissals is the lowest in records going back to December 2000. The hiring figures are consistent with the slowdown in hiring this year as the labor market approaches what economists regard as full employment. Analysts generally concurred that the employment picture supports the Fed's anticipated increase in benchmark rates at their December meeting. 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.

CONSTRUCTION EMPLOYMENT

The number of unfilled jobs in the overall construction sector increased to 221,000 in September after hitting a cycle high of 225,000 in July, which was the highest monthly count of open, unfilled jobs since February 2007. The overall trend for open construction jobs has been increasing since the end of the Great Recession. This is consistent with survey data indicating that access to labor remains a top business challenge for builders. Residential construction employment was 2.6 million, with 737,000 builders and 1.9 million residential specialty trade contractors. Over the last 12 months home builders and remodelers have added 140,000 jobs on a net basis. Since the low point of industry employment following the Great Recession, residential construction has gained 632,000 positions. In October, the unemployment rate for construction workers stood at 6.5% on a seasonally adjusted basis. The unemployment rate for the construction occupation has been on a general decline since reaching a peak rate of 22% in February 2010.

FED RATE HIKE EXPECTED IN DECEMBER

The Federal Reserve left interest rates unchanged at their meeting in early November but the post-meeting statement hinted that the Fed will edge rates up at the December meeting. Fed Chairman Janet Yellen stated that an interest rate hike could come "relatively soon" in mid-November. The Fed raised its benchmark interest rate from zero to 0.25% at the end of last year, the first increase since the Great Recession. Officials initially anticipated raising rates as many as four more times this year but gradually lowered their expectations as turmoil overseas in China and Britain rocked the global economy. While inflation is still lower than the central bank's 2% target, it is slowly picking up, and there are indications that the Fed may be satisfied with a lower pace of inflation. In addition, a steady uptick in consumer prices along with President-elect Donald Trump's plans to cut taxes and increase infrastructure spending mean that inflation risks have gone up.

WHAT ECONOMISTS EXPECT FROM THE TRUMP ECONOMY

The average forecasts for 2017 and 2018 from the *Wall Street Journal's* survey of economists conducted after the election showed that in general economists have a favorable view of the impact of President-elect Trump's economic policies. They expect the economy to run close to full employment, with unemployment falling to 4.6% by the end of 2017 and inching up to 4.7% by the end of 2018. GDP forecasts were raised to 2.2% for 2017 and 2.3% for 2018, higher than before the election but still low by historic standards. Economists see inflation rising to 2.2% in 2017 and 2.4% in 2018, which would be the first sustained inflation above 2% since before the 2007-2008 recession. Interest rates on 10-year Treasury bonds may rise, which would cause mortgage rates to creep up as well. Home prices are expected to increase 4.3% in 2017, with housing starts rising to 1.3 million, still well below bubble highs of 2.3 million before the big housing crash. Forecasters believe the odds of a recession are about 19% in the next 12 months, lower than they were over the summer. The last recession was more than seven years ago, historically a long time to go, but not unheard of. Trump's proposed tax cuts for business and the middle class along with plans to boost infrastructure spending are generally being viewed as favorable to economic growth.

HOUSING & CONSTRUCTION

HOUSING STARTS JUMP 25.5%

Housing starts jumped 25.5% in October to a seasonally adjusted annual rate of 1.32 million units after falling to 1.047 million units in September. Single-family starts rose 10.7% to a seasonally adjusted annual rate of 869,000 units after rising to 783,000 units in September. Multifamily starts bounced back, rising 68.8% to 454,000 units after falling to 264,000 units in October. Starts rose in all regions. Starts were up 44.8% in the Northeast, 44.1% in the Midwest, 17.9% in the South and 23.2% in the West. NAHB says that such a high level of starts is not sustainable, but a firming job market, growing economy and rising household formations should keep the housing recovery on track into next year.

BUILDING PERMITS RISE 0.3%

Building permits inched up 0.3% in October to a seasonally adjusted annual rate of 1.23 million, virtually unchanged from September's numbers. Single-family permits rose 2.7% to a rate of 762,000 and multifamily permits fell 3.3% to 467,000. Regional permit issuance was mixed. Permits increased 12.1% in the Midwest and 7.5% in the West. Permits dropped 21.1% in the Northeast and 2.4% in the South. Permits have been above the one million level for sixteen consecutive months, the longest stretch in seven years.

NEW-HOME SALES SLIP 1.9%

Sales of new single-family homes fell 1.9% in October from a downwardly revised September reading to a seasonally adjusted annual rate of 563,000 units. Numbers for July and August were also revised downward. The inventory of new homes for sale rose to 246,000 in October from 235,000 in September, a 5.2-month supply at the current sales pace, up from a 4.8-month supply in September. Regional sales were mixed. Sales fell 9.1% in the Northeast, 13.7% in the Midwest and 3% in the South. Sales increased 8.8% in the West. Analysts noted that the mix of sales has shifted slightly toward lower-priced homes, and pointed out that mortgage rates have gone up nearly half a percentage point since the presidential election. Much of the inventory in the pipeline is either under construction or not yet started. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

EXISTING HOME SALES RISE 2.0%

Existing home sales rose 2.0% in October to a seasonally adjusted annual rate of 5.60 million from an upwardly revised 5.49 million in September. Sales were 5.9% above a year ago and at the highest level since February 2007. The NAR says two consecutive months of big increases are due to the release of pent-up demand; many would-be buyers during the summer were frustrated by a lack of inventory. Total housing inventory at the end of October dropped 0.5% to 2.02 million existing homes available for sale, a 4.3-month supply at the current sales pace, down from 4.4 months in September of this year and unchanged from October 2015. Inventory has fallen year-over-year for 17 consecutive months. Sales rose in all regions. Sales were up 1.4% in the Northeast, 2.3% in the Midwest, 2.8% in the South and 0.8% in the West.

BUILDER CONFIDENCE STEADY AT 63

Builder confidence held steady in November after falling two points to 63 in October. Confidence remained at the second-highest level of 2016 according to the HMI (National Association of Home Builders/Wells Fargo Housing Market Index) The component measuring buyer traffic rose one point to 47, the index gauging current sales conditions held steady at 69 and the component measuring sales expectations for the next six months fell two points to 69. The three-month moving averages for HMI scores rose two points in the Northeast (45), Midwest (58) and

West (77). The South remained unchanged at 66. It was the nineteenth consecutive month the HMI remained above 50. NAHB says builders continue to express concerns about shortages of lots and labor.

MORTGAGE RATES RISE TO 4.03%

The 30-year mortgage rate rose to 4.03% during the last week of November, up from 3.47% at the end of October. In November of last year 30-year rates averaged 3.95%. Though still extremely low by many measures, rates have gone up more than half a point since Trump's election. Experts attribute the rise to several factors including a better-than-expected September jobs report.

POWER TOOL INDUSTRY

ROBERT BOSCH

Volkmar Denner will remain at the head of Robert Bosch for another four years. His contract was extended, a sign of solid support for him on the board. Mr. Denner is reportedly known for his calm, sober outlook, and according to *Handelsblatt Global Edition* has said that leading the company into its next phase is "a dream job."

Bosch acquired USA-based Skyline Automation via Climatec, which has been its subsidiary since 2015. Skyline Automation specializes in building automation technology, and reported revenue of $12 million last year. Financial terms were not disclosed. Stefan Hartung, managing director of Bosch' energy and building technology division, said that the acquisition is a strategic step towards becoming a single-source provider of networked systems and services for buildings.

Bosch is looking at strategic options for Pittsburgh-based Akustica, and has retained Michigan-based Angle Advisors to evaluate interest in the MEMS microphone business unit. Akustica designs and builds microphone technology and has been owned by Bosch since 2009. Bosch said the Akustica evaluation is being done at the request of an interested party; no other business unit is included in the current evaluation.

STANLEY BLACK & DECKER

From the Robert Baird Global Industrial Conference, where SB&D was represented by CFO Don Allan and Greg Waybright, Investor Relations:

They look at companies such as 3M, Honeywell, Danaher and GE as their peers. Their focus over the past 15 years has been to transform themselves from a smallcap building products company to a largecap diversified industrial company.

They believe they can drive growth as a company in what they termed a low-growth world. They plan to do that by leveraging the Stanley fulfillment system, with three different areas: breakthrough innovation, commercial excellence and digital excellence.

Their objective is organic growth between 4% and 6%; they will be a little below 4% this year, and think they will be right around 4% next year. A large driver of growth will be the tools and storage business, which has had organic growth of 6% to 7% over the past few years. Growth will be below that in 2017 unless FlexVolt is even more successful than they are projecting.

Their forecasts also do not include any impact if they decide to divest any portion of the security business, which has consistently underperformed compared to other segments. However, the security business is very digitally driven, and has helped them hone their digital excellence and drive value across the company.

They are expecting FlexVolt to contribute about $100 million in sales this year and about $200 million in 2017. It is difficult to gauge the potential cannibalization of their existing corded products as they roll out FlexVolt. They would love the cannibalization to come only from competitors' products, but realize that is not realistic. They have prepared enough capacity to have $400 million in FlexVolt sales in 2017.

Pros are looking for innovation that makes their job easier, makes them more productive and causes less wear and tear on their body. FlexVolt also appeals to Pros because they see it as safer for them to use than corded products as there are no cords that could potentially cause slips and falls.

Amazon is a major customer of theirs, along with Home Depot, Lowe's and other home centers. Ecommerce continues to become more and more significant, and the major players in retail also want to be big players in ecommerce. They think ecommerce can remain a successful part of their business.

They are expecting minor commodity inflation next year, about $20 million to $30 million in impact.

The $80 to $90 million in cost synergies from the Irwin and Lenox acquisition are driven by two big areas, supply chain and manufacturing and back office functions; there is also some overlap on the front-end resources that serve the customer. They have not quantified revenue synergies, but believe they will be significant.

They also believe the acquisition will provide an opportunity for cross-branding, such as they did with Stanley and Black & Decker and DeWalt. They are now selling power tools in emerging markets with the Stanley brand. They believe there are opportunities for the Lenox brand to be on certain power tools, and certain Irwin accessories could also be sold under the Stanley or DeWalt brands.

Other News:

SB&D hopes to redevelop their legacy manufacturing properties in New Britain, Connecticut into a state-of-the art technology park that could include $500 million in capital investment. The facility would be powered by nearly 20 megawatts of Doosan fuel cells and low cost hydropower from a Stanley-owned utility company in Farmington. Developer/partner Thunderbird CHP hopes the data center will be a draw for big data users like ESPN, UConn, Yale and others and that it would encourage some companies to relocate operations to as many as four retrofitted New Britain buildings proposed in plans submitted. However, the project was not chosen for the Department of Energy and Environmental Protection's program to sell fuel-cell power to Eversource, which would provide an annual revenue stream and make redevelopment more financially feasible. The project would reportedly be built in phases.

TRIMBLE

Q3 revenue rose 4% to $584.1 million. Engineering and Construction revenue rose 2% to $332.4 million. CEO Steve Berglund said that they encountered more challenges than anticipated in the U.S., particularly in the geospatial market. They expect market ambiguities to persist into 2017, but they expect 2017 to be a year of growth and margin expansion.

Trimble acquired Building Data, a provider of managed content and software solutions that will become part of the Engineering and Construction segment. Trimble says the deal will allow them to reinforce their commitment to provide data and analytics solutions to the construction industry, and expand the BIM (Building Information Modeling) models they offer for construction. Building Data has a proprietary 3D database of more than 6 million images used by mechanical, electrical and plumbing contractors. The deal is expected to close by the end of the year. Financial terms were not disclosed.

Trimble and Microsoft launched SketchUp Viewer, a commercial HoloLens application aimed at the architecture, engineering, operations and construction markets. Using Hololens, architects and designers can experience SketchUp models in a mixed reality, with holograms placed inside the real world. When users wear HoloLens goggles they can see 3D imagery projected in front of them.

RETAIL

RETAIL SALES RISE 0.8%

Retail sales rose a very strong 0.8% in October after rising 0.6% in September and were up 2.2% year-over-year. Online retail sales rose 1.5% in October after rising an upwardly revised 0.3% in September and were up 10% from October 2015. Core retail sales, which exclude automobiles, gasoline, building materials and food services, rose 0.9% in October after rising an upwardly revised 1% in September and were up 4.3% from October 2015. Core retail sales correspond most closely with the consumer spending component of GDP. Sales at building material, garden equipment and supplies dealers were up 1.1% in October after rising 1.4% in September. Results exceeded economists' expectations and pointed to sustained economic strength. Retail sales account for about one-third of all spending, with services making up the other two-thirds.

THANKSGIVING WEEKEND SALES RECAP

Average spending per person over Thanksgiving weekend totaled $289.19, down from $299.60 last year, according to a survey conducted by the National Retail Federation. They found that 154 million people made purchases over the extended holiday weekend, up from 151 million a year ago. About 44% shopped online and 40% shopped in stores.

Of those who shopped in stores, 75% shopped on Black Friday, up 3.4% from last year, 40% on Saturday, 35% on Thanksgiving and 17% on Sunday. The survey found that 29% of shoppers headed out after 10 a.m. on Black Friday, up from 24% last year. Less than 15% of consumers arrived to the stores by 6 a.m. or earlier on Black Friday. Early Thanksgiving Day in-store shopping dropped by 19% with only 7% of consumers heading to stores before 5 p.m., although overall shopping on Thanksgiving was up 1%. Only 9% of consumers had finished their holiday shopping by the end of the weekend, down from 11% last year. And 23% had not even started shopping by the end of the weekend, up from 19% last year.

ONLINE SPENDING SURGES

The most popular day to shop online over the long Thanksgiving weekend was Black Friday, up 1.3% from last year to 74%, followed by Saturday (49%), Thanksgiving (36%), and Sunday (34%). Technology played a big part in holiday shopping, with 56% of smartphone owners and 53% of tablet owners using their devices to assist with weekend shopping activities.

According to Adobe Digital Insights, total online spending for both Thanksgiving and Black Friday hit $5.27 billion, a 17.7% increase over last year. Black Friday online spending surged 21.6% year-over-year to $3.34 billion, surpassing the $3 billion mark for the first time. Consumers spent $1.93 billion on Thanksgiving Day, 11.5% more than in 2015, with an average order value of $160, down slightly from $162 in 2015. Mobile accounted for 57% of visits and 40% of sales ($771 million). Smartphones drove twice as many sales as tablets, at 27% and 13%, respectively. Mobile shopping on Black Friday was up 33% from last year to more than $1.2 billion. Mobile drove the majority of visits to retail websites on Black Friday at 55% (45% coming from smartphones, 10% from tablets), and accounted for 36% of sales (25% smartphones, 11% tablets). Retailers saw an increase in sales coming through shopper helper sites like RetailMeNot and CNET (16.5% share of sales), email (17.8%), display (1.2%) and social (0.9%). Traffic coming from search ads (38.3%) decreased by 4.3% from holiday averages while direct traffic (25.3%) decreased by 9.6%, although both remained the largest contributors to overall sales.

CYBER MONDAY MAKES HISTORY

Shoppers spent $3.45 billion on Cyber Monday, making it the largest online sales day in U.S. history, according to data compiled by Adobe Digital Insights. Cyber Monday sales jumped 12.1% year-over-year and surpassed initial expectations that called for total sales of $3.36 billion. Sales allayed fears that strong web sales during the Thanksgiving weekend would hurt sales on Cyber Monday, historically the busiest day of the year for internet shopping.

PILOTS ORDERED BACK TO WORK

About 250 pilots for Amazon Air Transport went on strike two days before Thanksgiving, threatening to disrupt Amazon holiday order delivery. However, a federal judge ordered the pilots back to work the day before Thanksgiving. Analysts say that Amazon has spread its deliveries among several carriers in order to minimize problems and has also tried to reduce its dependence on UPS and FedEx.

NATIONAL RETAIL FEDERATION FORECAST

The National Retail Federation (NRF) forecast that retail sales will rise 3.6% overall in November and December to $655.8 billion, which would be a big improvement over the 2.5% average growth over the 10-year period, and slightly better than the 3.4% average in the last seven years since the country emerged from recession. The biggest increases would be in online sellers, with the NRF projecting that non-store sales will increase between 7% and 10%, to $117 billion.

THE HOME DEPOT

Q3 sales rose 6.1% to $23.2 billion. Comp sales rose 5.5% and were up 5.9% in the U.S. CEO Craig Menear said sales growth was driven by increases in both ticket and transactions. Online sales grew more than 17% to 5.6% of overall sales. THD expects sales for the year to rise 6.3%, with comparable store sales rising 4.9%. THD also raised their guidance for earnings per share.

From their Q3 Conference Call with Analysts:

All three divisions posted positive comp sales, led by the Southern division. All regions posted positive comps except for one region in New England where they had a small negative comp due primarily to a state sales tax holiday in fiscal 2015 that did not repeat in 2016. For 2016 they expect sales to grow 6.3% and comp sales to rise 4.9% assuming no changes in foreign currency exchange rates. They saw strength across the store, balanced between Pro and DIY customers.

Q3 marked the anniversary of their $1.6 billion acquisition of Interline Brands, a major player in the maintenance, repair and operations (MRO) market for hospitality, institutional and multifamily.

They believe their total market opportunity is about $550 billion. They think they have about 15% of the MRO market overall, and about a 27% to 28% share of the DIY market and about 10% to 12% of the Pro market.

Total comp transactions increased to 2.4% and comp average ticket grew 3.1%. Lumber, tools, outdoor garden, indoor garden, lighting, décor and flooring were above average comps. Average ticket increase was slightly impacted by commodity price inflation from lumber and building materials, and average ticket growth was impacted by a weaker Mexican peso.

Big ticket sales over $900, which represent about 20% of U.S. sales, were up 11.3%, with the big drivers being appliances, flooring and roofing. Pro sales grew faster than their average comp. They also saw strength in DIY sales as customers tackled projects around the house, with especially strong comps in tool storage, laminate flooring and vanities. Services and appliances also helped grow big ticket sales.

Their tool business in particular continues to accelerate and they are taking meaningful share in the tools market.

They estimate the impact of storm-related sales in the quarter at $100 million due to areas impacted by Hurricane Matthew and flooding in Louisiana.

Their annual Halloween, Harvest and Labor Day events were a huge success and increased both traffic in stores and volume online. They saw robust comps in decorative holiday, appliances and power tools. Their promotional activities are almost identical to last year.

They rolled out an updated website during the quarter and redesigned their app, both with no disruption of service. They are already seeing better overall site performance.

Product innovation remains a key part of their strategy, and they introduced two breakthroughs for professionals, a 9 amp-hour lithium battery from Milwaukee and an 18-volt sub-compact drill and impact driver from Makita. Both of the products are exclusive to Home Depot.

At the end of the quarter merchandise inventories were up $746 million to $13.2 billion. Inventory turns were five times, flat to third quarter 2015. Their in-stock rates are a tick higher than Q3 last year, right where they want them to be, and clearance is at the lowest level in 21 years.

They are still assorting the appropriate products to house in their three direct fulfillment centers (DFCs) in the U.S., but having a distribution infrastructure in place has let them ship online orders faster. More than 40% of online sales are picked up in store.

They began the rollout of Sync in their Northern division and are continuing to bring on new suppliers in the Southern and Western divisions. The Sync program will be a multi-year, multi-phased endeavor, but they are pleased with their progress.

Changing customer expectations mean they need to simplify operations in order to improve productivity and the customer experience. Reducing the time and “footsteps” needed to move freight within the DC or from truck to shelf will let them reallocate associate time and improve customer experience.

In the 1,600 plus stores where Home Depot has Buy Online, Deliver from Store (BODFS) in place stores are exceeding their target and they have seen double-digit increases in the number of deliveries.

They have more than 900,000 Pros who hold a private label credit card with them. They’ve converted more than 20% of them to their new value product. Of those, 64% are activating the new value proposition.

LOWE’S

Q3 sales rose 9.6% to $15.74 billion. Comp sales rose 2.7%. Sales missed analysts’ expectations. Lowe's cut their full-year forecast and now expects sales to grow 9% to 10% for the full year and comp sales to increase 3% to 4%. Lowe’s had previously forecast sales growth of about 10% and comp sales growth of about 4%.

From their Q3 Conference Call with Analysts:

Results were below Lowe’s expectations, as well as below analysts’ expectations. Traffic slowed more than they anticipated in August and September before improving in October. CEO Robert Niblock said the quarter was challenging.

Their sales increase of 9.6% was driven by sales growth from RONA, which accounted for 6.3% of growth. New stores contributed approximately 60 basis points of sales growth. Comp sales growth of 2.7% was driven by an average ticket increase of 2.2% and transaction growth of 0.5%.

Q3 includes a full quarter of RONA’s financial results. Rona will be included in comp sales calculations after the second quarter of 2017, which marks the one-year anniversary of the acquisition.

They had positive comps in 10 of 13 product categories, and saw strength in big ticket purchases driven by outdoor power equipment and appliances. There was strong demand from Pro customers in lumber and building materials, tools and hardware. Lawn and garden also performed well. Comps for the South and West were in line with expectations, but they saw continued softness in their Northern division throughout the quarter.

Their project specialist interiors program was strong, with growth in both leads and comps.

They re-launched Lowes.com during the second quarter and provided an upgraded online shopping experience with optimized functionality in display for touch-screen devices, improved product and content recommendations, refined search algorithms, larger product images and expanded product views including video.

Lowes.com posted 20% comp growth, driven by robust growth in both transactions and tickets after their website redesign in the second quarter.

Their seasonal display strategy of allocating a large amount of space to seasonally important categories has been very successful, with sales of Halloween products up 65% from last year. That space has now been allocated to holiday décor.

The Louisiana floods and Hurricane Matthew drove broad-based demand across many categories. Historically, major storms have four phases: preparation, impact, clean up and recovery. The third quarter encompassed only preparation and some initial clean up from Hurricane

Matthew. They expect recovery to begin this quarter and extend into 2017.

Pro continues to outperform DIY and they remain focused on deepening their relationship with Pros and offering Pros the products they need and want.

They are strengthening their overall portfolio of pro-focused brands and adding inventory to better serve pro customers.

They are very pleased with their more than 200 Pro sales representatives in the field , and saw double-digit growth in Account Executive Pro Services (AEP) sales during the quarter which contributed to strong Pro comp growth.

They are looking at a variety of ways overall to improve productivity, and have abandoned some technology-based initiatives in order to focus on the critical few that have the potential to really improve the business.

They tested several initiatives during the quarter, including new store opening density, new market penetration approaches and atypical prototypes to allow for more metro market penetration. Learnings from the tests will shape how they move forward.

Inventory increased 5.3% or $556 million, to $11 billion. The increase in inventory relates to the addition of RONA. Inventory turns were up four basis points to 3.89.

They believe they can drive sales and traffic into stores by continuing to look at their marketing message, the promotional cadence they use and the mix of media they are using. They are also undertaking a comprehensive review about how they are allocating their spending to make sure they are investing in areas that resonate with consumers and help drive better productivity.

Their merchants have done a great job working with their vendor partners on cost of goods and remixing their promotional strategy to be more in line with what consumers want.

They want to focus spending on digital platforms so they can be more nimble in shifting messaging and adjusting to weather or traffic dynamics as they unfold.

They are encouraged by the first six months of working together with the RONA team and feel that integration is on track. The teams are identifying new areas of synergy and joint operations they might not have planned on prior to the acquisition.

Other News:

Lowe's is building on a popular promotion tactic used by Menard's, their 11% rebate offer. In some markets, Lowe's customers who make a purchase for any amount will get a coupon printed on their receipt good for 11% off at a future visit before December 31. Menards frequently runs their popular 11% rebate offers, but fulfillment requires mailing in a form and your receipt and waiting six to eight weeks to get a gift card. Neither Lowe's nor Menards wanted to comment, but a spokesperson for The Home Depot said they generally match discounts from competitors, including Menards' 11% rebate when it is offered. Analyst point out that Lowe's program is not really a rebate; it's a discount on a future purchase, a device designed to increase repeat customer traffic. Florida chain Beall's Department stores uses a popular in-store program called Beall's Bucks; during these promotions shopper receipts show a percentage of their purchase as Beall's Bucks, which can literally be used as cash on a future purchase made sometime in the next few weeks or month. Promotional Marketing Insights says that studies show that fewer than half of the people who intend to send in a rebate form actually do so, and of those who do, 20% of them don't actually cash their check.

WALMART

Q3 revenue rose 0.7% to $118.2 billion, below analysts' expectations of $118.69 billion. **Comp sales in U.S. stores rose 1.2%,** the ninth consecutive quarter of increase in comp store sales. Traffic rose 0.7%. Ecommerce sales added 0.5% to comp store sales. Net sales at Walmart International fell 4.8% to $28.4 billion. Excluding currency impacts, net sales increased 2.4% to $30.5 billion. Global ecommerce sales increased 20.6%.

Walmart is investing heavily in response to Amazon's ambitious growth plans, and will add more than 1,000 online grocery pickup locations at store by the end of the year.

Walmart has slowed the pace of new store openings, opting to invest in improving the performance of existing stores.

Several ecommerce execs are leaving Walmart's operations now that Jet.com founder and CEO Marc Lore has taken over ecommerce operations. Departures include Fernando Madeira, head of Walmart.com, Dianne Mills, senior vice president of global ecommerce human resources and Brent Beabout, senior vice president of the ecommerce supply chain. Beaubout will be succeeded by Jet.com co-founder Nate Faust, who will take over fulfillment operations of both Jet.com and Walmart.com. Helen Vaid, vice president of digital store operations for Walmart's ecommerce, left in September to become chief customer officer for Pizza Hut. Inside sources said her departure was not related to the Jet.com deal. The departure is a signal that Walmart's ecommerce operations are going to get a drastic makeover.

Walmart is deploying what they referred to as an army of Holiday Helpers to improve customer service. They're also going all out to attract customers, offering more than 150,000 product demos, 23,000 visits from Santa and transforming stores into "Winter Wonderlands." Walmart dramatically increased the number of products available through their buy online, pickup in store service, and added pickup staff and dedicated pickup managers for all stores. They said that during the holidays their pickup center is five times busier than normal. They've also rolled back prices on thousands of items.

Walmart opened a training academy in Tennessee to develop skills for their hourly supervisors and department managers. The training academies help provide associates with the skills they need to succeed, advance and create a better and more consistent customer experience. Walmart plans to open 200 academies by the end of next year that will train more than 14,000 employees each year.

SEARS

Sears offered Craftsman tools at big discounts online only for Cyber Monday, but actually started the sale at midnight on Sunday.

Sears is reportedly getting serious about shopping some of its brands, including Craftsman, DieHard and Kenmore. No factories will change hands if and when Craftsman is sold because all Craftsman tools are produced by outside manufacturers. Stanley, Black & Decker, TTI, Apex Tool Group and Husqvarna are all reportedly interested.

MENARDS

Menards is entering the Kansas City market, opening two stores in the Kansas City metro. Four years ago Menards announced they planned to open as many as six stores in the Kansas City area. Forbes ranks Menards No. 37 on the list of the largest private companies in the U.S.

W.W. GRAINGER

Daily sales were flat in October compared to October 2015, driven by a 1% increase in volume offset by a 1% decline in price. Daily sales in the U.S. were down 1%. Daily sales in Canada were down 13% in local currency and 15% in U.S. dollars.

For the 2016 fourth quarter Grainger expects sales to increase 1% to 3%. For the full year 2016, Grainger reaffirmed previous guidance of sales growth of 1.5% to 2.5%.For the full year 2017, they expect sales growth of 2% to 6%.

AMAZON

Amazon called the stretch from Thanksgiving Day to Cyber Monday the "Turkey 5." By mid-morning on November 25 Amazon reported that mobile orders for the day had already surpassed the number of mobile orders on both Thanksgiving Day and on Cyber Monday in 2015.

Amazon opened their Black Friday Deals store at midnight on November 1. Amazon promises tens of thousands of deals, with new ones coming as often as every five minutes. The Black Friday shop will be open through

December 22. Amazon also updated their mobile apps to allow for easier shopping, even when the customer is in a physical store. People can now use their phone's camera to do a visual search for an item within the Amazon app. A new feature called Package X-Ray was debuted in mid-November that allows iPhone users to peek inside a box without opening it; just scan the barcode. Amazon Echo's Alexa will have access to other exclusive deals, and will also offer exclusive deals to Amazon Prime members.

Amazon Prime has reportedly grown to 49.5 million members, according to new third-party data from Cowen & Company. Amazon does not disclose the number of Prime members, so Cowen based its estimate on a panel of 2,500 U.S. consumers. Last year Cowen estimated there were 40 million Prime members using the same methodology. Some other data includes the fact that 83% of Prime members purchased an item from Amazon in October compared to 49% of U.S. consumers who don't have Prime. The number of people purchasing groceries and consumables rose 12% from last year; people making that same type of purchase at Walmart fell 2%.

Amazon has increased their warehouse square footage by 30% this year, but is trying to incentivize the millions of merchants who rely on Amazon to fulfill their online orders not to stock up on items that aren't expected to sell before the end of the year, like Valentine's and Easter merchandise. To that end, Amazon is charging sellers a premium for storing merchandise in their warehouses during November and December, which is partly offset by lower fees for fulfilling orders. Amazon has also temporarily stopped accepting shipments from new sellers. Amazon reports that about a quarter of the merchandise sold on Amazon.com is part of the fulfillment program, which charges storage fees based on volume. The temporary increase in storage fees is one of Amazon's first experiments with surge pricing, or charging more for goods and services when demand is highest.

Amazon Home has expanded to 20 metro areas nationwide. The service, which launched in 2015, connects customers with plumbers, carpenters, installers and other trades. Customers can read reviews and schedule services online that are backed by Amazon's Happiness Guarantee. Amazon says they handpick the service providers who are authorized to participate and they must go through business and criminal background checks, maintain trade licenses and have insurance on file with Amazon.

Non-Prime members now pay more for books at Amazon's physical bookstores, where Prime members get discounts and non-members don't. Amazon is using the discount as a way to attract more Prime members; customers can sign up for a 30-day Prime trial at checkout. Amazon devices such as Fire tablets are the same price for everyone.

Amazon is testing a part-time team initiative pilot program, which allows entire teams to work 30-hour weeks for 75% of salary and full benefits. Amazon says the program is designed to help them recruit and retain skilled tech workers and also to diversify the company's employee base. Current employees can apply to transfer to one of the three teams now being formed.

Amazon has hired U.S. army veteran Ardine Williams to be one of their lead recruiters for their fast-growing computing unit, with an emphasis on recruiting veterans. Amazon says they've hired more than 10,000 veterans in the past five years and has pledged to hire more than 25,000 veterans and military spouses in the next five years.

MARKET TRENDS

LONG-TERM OUTLOOK FOR U.S. ECONOMY

Berkshire Hathaway CEO Warren Buffet told Bloomberg that he is still bullish about the U.S. economy, even if GDP growth hovers around 2% as expected. He said that with population growth of less than 1%, even 2% GDP growth means that in one generation the U.S. would add $18,000 or $20,000 of GDP per person, which Buffet says means that people will be living far better 20 years from now. The Atlanta Fed issued a forecast for the first half of 2017 that anticipates GDP growth of 2.7%, with falling unemployment and growing wages.

HISPANIC BUYING POWER RISING

Hispanic buying power increased 5.7% in 2015 to $1.3 trillion, accounting for just under 10% of total U.S. buying power, and is expected to reach $1.7 trillion by 2020, according to Nielsen. Hispanics' younger, larger families are accounting for a larger share of some retailers' business, including Target, Sears and J.C. Penney. Last year Target spent about $9.1 million on Spanish-language television ads out of about $100 million in total on television advertising, according to Kantar Media. This year Target is integrating Hispanic marketing into their general marketing strategy, and has boosted overall television spending by 21%. They are also adjusting some merchandise to appeal to Hispanic shoppers.

SHOPPER LOYALTY

Amazon, Zappos and Ralph Lauren were the top loyalty leaders in the retail segment of the 20th annual Brand Keys Loyalty Leaders List. The ranking, which is 100% consumer-driven, examined 72 categories and 635 brands. Across all categories, Google took the #1 spot, followed by Amazon, Apple, Netflix and Facebook. Of the top 100 brands that make up the ranking, 17 were retail companies.

CYBER WARS

The Department of Homeland Security and the FBI are investigating a massive cyberattack that stopped or slowed access to Twitter, Spotify, Amazon, PayPal and other sites by targeting Dyn, a firm responsible for routing internet traffic. Hackers used a method known as distributed denial of service, or DDoS, a tactic that is on the rise. A DDoS attack blocks users by overloading the site with traffic. Companies like Dyn are prime targets, because so many sites and services rely on them. The Internet security world has been on high alert since the Dyn attack, which is believed to be one of the largest DDoS attacks ever.

FIRST U.S. MULTISTORY WAREHOUSE

Prologis Inc., the world's biggest warehouse owner, will start construction next year on a three-floor 580,000-square-foot warehouse just outside downtown Seattle. It will be the first multistory warehouse in the U.S. Prologis is attempting to create more capacity in urban markets where land is getting very hard to come by. As ecommerce sales grow, many retailers are bringing warehouse operations closer to their customers, who expect speedy delivery. Construction is expected to be completed in 2018.

GOOGLE HOME

Google has introduced a stand-alone home assistant to compete with Amazon Echo. The cloud-based, voice-activated digital assistant is admittedly behind Amazon Echo in terms of current skills, but Google has a vast knowledge base waiting to be tapped. Google Home is also meant to be displayed; it has a curved touch surface, hidden LED lights and the base can be replaced with one of a different color or texture. Both Echo and Google Home respond to voice commands. Amazon Echo has more than 4,000 skills already in place, and there are reportedly tens of thousands of developers working on new skills. Google will kick off the developer platform for the Google Assistant in December. Google Home still does not handle some of the basics that Alexa does, such as setting reminders or adding entries to Google Calendar, but it can remind you about things already on your calendar. Both Alexa and Google can adjust a Nest thermostat, turn Phillips Hue lights on or off, arrange a ride through Uber, suggest local restaurants, convert currency to dollars, solve math problems and deliver news, weather and sports. They even tell jokes. Google could eventually get the upper hand based on the immense reservoir of knowledge that is Google. As of *USA Today's* test, Amazon Echo did a better job of answering "Who will win the presidential election," offering results from RealClear Politics polling averages.

PROMOTIONS SHOW GENDER BIAS

The Women in the Workplace 2015 report by McKinsey and LeanIn.org found that men are 30% more likely than women to be promoted from entry level to manager. This results in a workforce with an equal number of men and women at the entry level, but a widening gap as workers climb the ladder. At entry level, 54% are men and 46% are women. At the manager level, 63% are men and 37% are women and at the vice president level 71% are men and 29% are women. By the time they reach the C-suite (CFO, COO, CMO, etc.) 81% are men and 19% are women. LeanIn.org says that women hit the glass ceiling and plateau out sooner than men do. However, 80% of men and 74% of women want to get promoted to the next level, and 56% of men and 40% of women want to become a top executive. Interestingly, of those who don't want to be a top executive, 42% of both men and women say they would be unable to balance work and family; 32% of women and 21% of men don't want the pressure. Several factors contributed to women's lagging behind, including uneven distribution of responsibilities at home and less access to senior leaders.

THE PRICE OF POOR CUSTOMER SERVICE

More than 80% of consumers surveyed in the U.S., Australia, Europe and New Zealand said they have stopped doing business with a company following a bad customer experience, according to a survey by Ovum for live-chat software-maker BoldChat. Six in 10 consumers said that easier access to support channels on the web, whether live chat, social media or communities, was one of the top two improvements they'd like to see. More than 50% also said that agents responding more quickly would definitely improve service. 29% were looking for a consistent experience across channels, and 19% wanted better mobile service. Of those surveyed, 83% used mobile apps for customer service, up from 64% two years earlier. Use of live chat on mobile app was up 11% in the same two years. Additional research has shown that someone who has a bad customer service experience will tell an additional ten people about it.

REFERRED CUSTOMERS ARE PRIZED

According to *Chain Store Age*, referred customers have 20% higher Average Order Values, have 25% higher Lifetime Values and are 25% more profitable than customers from any other channel. Analysts say that is because they feel more connected and trust the brand at a higher level than others because they trust the person who referred them.

WEBROOMING

According to date from Rubicon Project and Penn, Schoen & Berland Associates, nearly two-thirds of internet users plan to research online this holiday season, with 78% planning to do at least some of their shopping in stores. Shoppers are checking costs, but they are also researching product features and checking availability. More than 50% of shoppers begin their product searches on Amazon's website or smile app, and search engines such as Google and Yahoo are losing ground. Search engines were the starting point for 28% of those surveyed, down from 34% a year earlier. Specific retailers were the starting point for 16%, down from 21% last year. Amazon has become the reference point for shoppers. EMarketer expects ecommerce sales to increase 13% to $385 billion this year.

DIGITAL AD SPENDING TO SURPASS TV THIS YEAR

According to eMarketer's latest survey, by the end of this year U.S. Digital ad spending will reach $72.09 billion, with TV spending growing to $71.29 billion. That means digital will represent 36.8% of U.S. total media ad spending while TV will represent 36.4%. Digital advertising is not only pulling dollars from traditional media, it's also creating new advertising opportunities at both the local and national level. The strong performance of the digital ad market is being driven by several factors, including mobile and video. Mobile ad spending will grow 45% this year to reach $45.95 billion, and will grow to represent an increasing share of overall spending. EMarketer says that by 2019 mobile will account for more than a third of total media ad spending, with Google reigning supreme over mobile with 32.0% of the mobile ad market, followed by Facebook with 22.1%. Display spending will reach $34.56 billion this year, slightly ahead of search's $33.28 billion. Facebook has the lion's share of display spending, accounting for 34.5%.

AD AWARENESS DOWN

The YouGov BrandIndex reported that for almost half of all large retail brands, advertising awareness is significantly lower than it was a year ago. While Walmart still leads in awareness, they're only connecting with 48% of consumers, down 9% compared to last year. Amazon, Target and J.C. Penney fared best, but nevertheless experienced drops in awareness. The index is based on daily polling, asking respondents two questions about 23 leading stores: one on good value and one asking if they've seen an ad for the store in the past two weeks. In terms of value perception, Amazon was the leader, with a score of 55.8%; Walmart was third at 32.5%.