MarketBriefing

2016 Issue 1 News from the month of December 2015

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U.S. ECONOMY

EXCHANGE RATES DEC. 31, 2015

Euro	1 Euro = $1.087	$1.00 = 0.920 Euros
Canadian Dollar	1 CAD = $0.723	$1.00 = 1.384 CAD
Japanese Yen	1 Yen = $0.008	$1.00 = 120.262 Yen
Chinese Yuan	1 Yuan = $0.154	$1.00 = 6.488 Yuan
Mexican Peso	1 Peso = $0.058	$1.00 = 17.212 Pesos

MARKET WATCH DEC. 31, 2015

DOW	17,425	-1.0%
NASDAQ	5,007	-1.15%
S&P 500	2,044	-0.94%

The stock market ended a turbulent year with mixed results. The Dow had the worst year since 2008, and fell 2.2%. The tech-heavy NASDAQ was up 5.7%. The S&P, the index most closely watched by economists, closed out the year down 0.7%. For the month of December, the Dow fell 1.0% to close at 17,425, the NASDAQ fell 1.15% to close at 5,007 and the S&P closed down 0.94% at 2,044.

CONSUMER CONFIDENCE RISES TO 96.5

The New-York based Conference Board's Consumer Confidence Index rose to 96.5 in December after falling unexpectedly to 90.4 in November. The Present Situation Index rose to 115.3 after falling to an upwardly revised 110.9 in November. The Expectations Index reversed its downward trend, rising to 83.9 from an upwardly revised 80.4 in November. The Conference Board said that consumers remain positive about the economy and the job market, but expect little change in 2016. 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 November after creeping up just 0.1% in October. The savings rate edged down to 5.5% after rising to 5.6% in October. Personal income rose a solid 0.3% thanks to healthy gains in wages and salaries after rising 0.4% in October. Overall consumer spending has slowed from the third quarter's brisk 3.0% pace, but the anticipated level of 2% for the fourth quarter should be strong enough to support the economy despite the Fed's first increase in interest rates since 2008. Consumer spending is closely watched by economists because it accounts for 70% of U.S. economic activity.

CONSUMER PRICES UNCHANGED

The Consumer Price Index (CPI) was unchanged in November after rising 0.2% in October. In the 12 months through November the CPI advanced 0.5% after rising 0.2% in October. Core prices, which strip out volatile food and energy costs, rose 0.2% for the third consecutive month. In the 12 months through November core prices advanced 2% after increasing by 1.9% in October. Energy costs fell 1.3% in November, led by a 2.4% drop in gasoline prices at the pump. The Fed tracks the personal consumption expenditures price index, excluding food and energy (PCE), which has been running lower than the core CPI. The PCE was up 0.39% year-over-year in November following an increase of 0.22% in October. Real or core PCE was up 1.33% in November after rising 1.29% in October.

UNEMPLOYMENT STEADY, JOBS GROW

The unemployment rate held steady at 5% in December and the economy added 292,000 new jobs. The jobless rate has now been at a 7 1/2 year low for three consecutive months, and in a range that many Fed officials see as consistent with full employment. Average hourly wages were flat. The report also noted that employers added a combined 50,000 more jobs in October and November than previously estimated. Hiring averaged 284,000 a month in the fourth quarter, the best three-month pace in a year. The average monthly gain in jobs last year was closer to the 2013 average of 199,000 per month, but fell short of the 260,000 new jobs delivered monthly in 2014. Job postings fell in December, which analysts say is typical, as many people in positions to hire take vacations. Labor demand always jumps in January. Wage growth has been sluggish despite the improving job market. The continued drop in gas prices has helped plump up disposable income for consumers despite lagging wage growth. The mild winter has helped bolster the construction industry. Construction companies added 215,000 jobs last year, a 3.4% gain. However, warm weather has impacted the sales of seasonal goods at many retailers, causing layoffs. Fed Chairman Janet Yellen noted that the economy needs to create just under 100,000 jobs a month to keep up with growth in the working age population.

DURABLE GOODS ORDERS UNCHANGED

Orders for durable goods remained virtually unchanged in November after increasing a slightly downwardly revised 2.9% in October. Orders for non-defense capital goods excluding transportation, which serve as a proxy for business investment spending, fell 0.4% in November after rising 1.3% in October. Shipments of core capital goods, which are used to calculate equipment spending in GDP, fell for the second consecutive month. Durable goods orders were down 3.7% year-to-date. Much of the year's decline comes from a 36.9% drop in commercial aircraft, plus falling demand for machinery and primary metals. The dollar appreciated more than 11% over the first eleven months of 2015. The manufacturing sector struggled in 2015 and the outlook for continued strength from the U.S. dollar, slumping oil prices and sluggish global demand would indicate that the soft performance of this sector will continue in 2016. The durable goods report is often both volatile and subject to sharp revisions.

CHICAGO PMI FALLS TO 42.9

The Chicago PMI, the bellwether manufacturing index, fell to 42.9 in December after dropping 7.5 points in November. Economists had expected the index to rise to 50. The decline was caused by a 17.2 point drop in order backlogs, which fell to 29.4, the lowest level since May 2009. It was the 11th consecutive month order backlogs were in contraction. New Orders fell 5.3 points to 38.8, also the lowest level since May 2009 and the seventh month this year New Orders has been in contraction. Production also fell into contraction after jumping nearly 20 points to a reading above the neutral level of 50 in November. Nevertheless, 55.1% of survey respondents said they expected stronger demand in 2016 than in 2015.

WHOLESALE PRICES RISE 0.3%

The Producer Price Index (PPI) rose 0.3% in November after falling 0.4% in October. It was the first time in four months that prices rose. The increase was primarily due to higher profit margins for retailers and wholesalers and a big jump in shipping costs. The PPI was down 1.1% from November 2014. It was the tenth consecutive month that year-over-year PPI has declined. The core PPI, which excludes food, energy and trade services, rose 0.1% in November after falling 0.1% in October and was up 0.3% from November 2014. The PPI for inputs to construction fell 0.2% in November after falling 4.6% in October.

Q3 GDP GROWTH SLOWS TO 2%

GDP growth for the third quarter was revised down slightly to 2% after being upwardly revised from the 1.5% growth first reported to 2.1% in November. The downward revision was actually less than economists had expected. GDP grew 3.9% in the second quarter. The downward revision was due to a larger trade deficit and a smaller buildup in inventories than earlier estimates showed. Exports rose a slower 0.7%, down from the 0.9% previously estimated and imports rose 2.3% instead of the 2.1% reported in November. Consumer spending for the quarter remained at 3%, and business investment in structures such as office building rose from 2.4% to 2.6%. Pretax corporate profits fell 5.1%, the third decline in the past four quarters. Profits have been undercut by the strong dollar and lower oil prices. In total, the U.S. economy expanded at a 2.2% rate through the first nine months of the year. Economists are projecting a similar rate of growth for the fourth quarter. If that is the case, the economy will have failed to reach 3% growth for the 10th consecutive year, marking the slowest stretch since the end of World War II.

JOLTS SHOWS MORE JOB OPENINGS

The October Job Openings and Labor Turnover Survey, or JOLTS report, showed that job openings rose by 150,000 in September to 5.53 million, but the level of hiring actually declined to 5.05 million. The number of unemployed people per job opening fell to 1.4, a post-recession low. Wells Fargo analysts say that the divergent trends are indicative of longer hiring times and increased caution among employers. The quits rate held steady at 1.9% for the sixth consecutive month. The drop in hirings and stalled quits rate have more implications for job growth than the increase in job openings. The JOLTS report includes estimates of the number and rate of job openings, hires, and separations for the nonfarm sector by industry and by four geographic regions. The JOLTS report is one of Fed Chair Janet Yellen's preferred economic indicators.

FED RAISES INTEREST RATES

As expected, the Federal Reserve raised interest rates for the first time in nearly a decade in mid-December. The decision to raise rates by a quarter of a percentage point to between 0.25% and 0.50% signaled that the central bank has faith in the recovery of the U.S. economy. The Fed made it very clear that the rate hike was the beginning of a cycle of very gradual tightening, and that further rate hikes will be data dependent. Economists had overwhelmingly anticipated the hike. A Reuters poll of economists showed that the consensus expectation is that the federal funds rate will be between 1.0% to 1.25% by the end of 2016 and 2.25% by the end of 2017. The actual impact of the rate hike on household and business borrowing costs remains unclear at the time. The rate increase is meant to nurse monetary policy back to a more normal footing, not to cool the market in any way.

ECONOMIC OUTLOOK

Nearly 78 months after emerging from the longest recession since the Great Depression, the U.S. economy's upswing is now the fifth longest of the 34 expansions that have occurred since 1900, and twice the length of the average period of upward growth. Goldman Sachs forecast that the expansion has longer to run, giving it a 60% chance of reaching the 10-year mark. Since 1950 the average expansion has been about five years. However, 30% of the expansions over the past 65 years have lasted one or two years; another 30% have endured for two decades or more. Most economists say there is just a 10% to 15% chance of recession in 2016. However, Citi Research analysts put the probably of a new recession, defined as two consecutive quarters of shrinking economic growth, at 65%. They're basing that on past economic performance and the formidable headwinds the economy faces this year. They identify the most potent of them as ongoing economic turbulence in China, Brazil, Turkey and other remerging markets. If they're right, a recession in the U.S. triggered by economic deterioration abroad would be a first; recessions are typically caused by plunging domestic demand. Some economists say that the labor market is signaling a good chance of a recession in 2017 unless the joblessness rate stops declining. A stock market correction has accompanied every major recession for the past fifty years.

CEOS LESS OPTIMISTIC

The Business Roundtable CEO Economic Outlook Index fell 6.6 points to 67.5 in the fourth quarter, its lowest level in three years. The Index is a composite of CEO projections for sales, investment and hiring plans over the next six months. The long-term average for the index is 80.1 points. CEOs' expectations for sales and plans for capital expenditure both fell. Hiring plans remained consistent. It was the third consecutive quarter that CEOs expressed growing concern about the country's short-term economic prospects. The percentage of CEOs expecting sales to increase over the next six months fell to 60% from 63% in the previous survey. The proportion of CEOs who said they expected their capital spending to decrease over the next six months rose to 27% from 20% in the third quarter. CEOs said that regulation was the top cost pressure facing their business, followed by labor and health care costs. Many CEOs also cited a need for the U.S. to revamp tax codes. The Business Roundtable is an association of chief executive officers of leading U.S. companies.

HOUSING & CONSTRUCTION

HOUSING STARTS RISE 10.5%

Housing starts rose 10.5% in November to a seasonally adjusted annual rate of 1.173 million units after falling a downwardly revised 12% in October. Single-family starts rose 7.6% to a seasonally adjusted annual rate of 768,000 units, the highest level in seven years. Multifamily starts rose 16.4% to 405,000 units after falling to 338,000 units in October. Overall starts were up 11% from November 2014. NAHB says we are making gradual progress back to a normal housing market, and expects the recovery to continue at a modest pace. **Regional starts were mixed.** Starts rose 21.4% in the South and 6.3% in the West. The Midwest was unchanged while starts in the Northeast fell 8.5%. Analysts note that unusually warm weather in much of the country may have accounted for the big increase during what is normally a slow time of year. If housing starts returned to the prerecession normal level of 1.5 million annual units, an additional two million jobs would be created, including one million in construction, according to analysis by CMD Data.

BUILDING PERMITS RISE 11%

Building permits rose 11% in November to 1.289 million units. Multifamily permits rose 26.9% to 566,000 units and single-family permits inched up 1.1% to 723,000 units, the highest level for single-family permits since December 2007. **Regional permit issuance was mixed.** Permits rose 22% in the Midwest, 5.6% in the South and 21.7% in the West. Permit levels held steady in the Northeast. Permits have been above the one million level for seven consecutive months, the longest stretch in seven years.

NEW-HOME SALES RISE 4.3%

Sales of new single-family homes rose 4.3% in November to a seasonally adjusted annual rate of 490,000 units after rising to a downwardly revised 470,000 units in October. New-home sales are up 15.7% year-to-date. The inventory of new homes rose to 232,000 units in November from 226,000 in October. That's a 5.7-month supply at the current sales pace, up from a 5.5-month supply in October. **Regional sales were mixed.** Sales rose 20.5% in the West and 4.5% in the South. Sales fell 28.6% in the Northeast and 8.6% in the Midwest. Regionally, the South and West account for about 80% of all new-home sales. The pace of sales remains well below historic demand of 800,000 units per year. The NAHB said that limited gains in new-home sales are tied to a weak market for existing homes, as people who already own a home that they need to sell before they can buy a new one make up most of the new residential construction market. 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 DROP 10.5%

Existing home sales fell 10.5% in November to a seasonally adjusted annual rate of 4.76 million after falling to 5.36 million in October. Sales were 3.8% below November 2014. **Single-family home sales fell 12.1%** to a seasonally adjusted annual rate of 4.15 million in November after falling to 4.75 million in October. Sales were 4.6% lower than the pace of November 2014. The median existing home price rose to $220,300, which is 6.3% above November 2014. November's price increase was the 45th consecutive month of year-over-year gains in home prices. Total housing inventory at the end of November fell 3.3% to 2.04 million existing homes available for sale, 1.9% below November 2014. That's a 5.1-month supply at the current sales pace, up from 4.8 months in October. The percent of first-time buyers slipped to 30% in November after rising to 31% in October. A year ago, first time buyers also accounted for 30% of all buyers. All-cash sales, which are generally considered to be sales to investors, rose to 27% in November from 24% in October and were up from 25% of sales a year ago. Distressed sales climbed to 9% in November from 6% in October and were unchanged from November 2014. **Sales fell in all regions,** dropping 9.2% in the Northeast, 15.4% in the Midwest, 6.2% in the South and 13.9% in the West. January and February are typically the slowest months of the year for existing home sales, but November has been the third slowest month in each of the past two years. Since sales are typically slow, modest drops can be overstated in seasonal adjustment. Wells Fargo noted that the implementation of a new mortgage disclosure rule may have been a factor, as mortgage application plunged 27.6% during the first week of October, the biggest drop since 2009.

BUILDER CONFIDENCE FALLS TO 61

Builder confidence fell one point to 61 in December after falling to 62 in November. Builder confidence has been in the low 60s for the past seven months, which NAHB says is in line with a slow, gradual recovery. It was the eighteenth consecutive month the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) remained above 50, the level at which more builders consider conditions good than bad, and the seventh consecutive month the index has been at 60 or better. All three HMI components posted modest losses in December after mixed results in November. The index measuring sales expectations for the next six months fell two points to 67, the component gauging current sales conditions decreased one point to 66, and the index charting buyer traffic dropped two points to 46. Looking at the three-month moving averages for regional HMI scores, the West increased three points to 76, and the Northeast rose one point 50. The Midwest dropped two points to 58 and the South fell one point to 64.

MORTGAGE RATES RISE TO 4.01%

Freddie Mac reported that the average interest rate on a 30-year fixed rate mortgage (FRM) rose to 4.01% at the end of December after rising to 3.95% at the end of November. One of the reasons rates ticked up was a big jump in consumer confidence. At the end of December 2014 mortgage rates averaged 3.97%. Freddie Mac expects mortgage rates to rise to 4.7% by the end of the fourth quarter of 2016.

POWER TOOL INDUSTRY

ROBERT BOSCH

The Power Tools unit of Robert Bosch is expected to report record-high production of about 50 million power tools for the full year of 2015, according to *German Collection.* That's almost twice as many tools as produced in 2005. The most popular product worldwide remains the IXO cordless screwdriver, now available in its fifteenth generation. Bosch now makes more than 1 million cordless screwdrivers each year.

Robert Bosch has reduced CO2 emissions by more than 20% since 2007, thanks to a variety of energy-saving measures. They're using eco-friendly technologies in manufacturing and they've installed efficient heating technology in their buildings. Reducing energy use helps both the planet and the companies taking action, according to Dr. Werner Struth, the Bosch board of management member responsible for environmental protection. Between 2007 and 2014 Bosch saved around 530 million euros in energy costs through their energy-saving program. Bosch's new research campus in Renningen, Germany features green roofs and triple-glazed windows, along with automatic sun shades that lower in bright sunlight. This combination has cut energy consumption 20% to 30%.

Robert Bosch will open a 51,667-square-foot technology center in Pittsburgh, nearly doubling their space in that region. Bosch President Mike Mansuetti said that Bosch is experiencing significant growth in many regions, especially in Pittsburgh. The bigger space is needed to accommodate growing business units.

STANLEY BLACK & DECKER

From the UBS Industrials and Transportation Conference, where SB&D was represented by President and CFO Don Allan:

Many of their businesses produce between 8 and 10 working capital turns, which is considered very efficient in the industrial market.

Organic growth will be a big part of their focus going forward. Tools & Storage is their first priority for acquisitions. They think certain strategic acquisitions will help them grow earnings per share (EPS) by 10% to 12%. Organic EPS growth would be about 6% to 8%.

The more positive residential construction market in the U.S. over the past year or two has contributed 4 to 5 points to their U.S. market growth, where they are seeing organic growth in the high single digits.

The innovations they've introduced have driven organic growth in the professional market, particularly the brushless motor in their cordless power tools.

They are still benefiting greatly from the revenue synergies created by combining Stanley and Black & Decker. Using their powerful brands on products that did not exist three years ago has been very successful for them, including DeWalt hand tools and Stanley FatMax power tools.

They expect growth in Tools and Storage to slow to about 4% to 6% over the next few years, partially because they will be dealing with very challenging comps.

Some of the markets they sell into are very sluggish. They provide tools that are used in the construction of oil and gas pipelines and hydraulic and infrastructure tools that are used in demolition and the scrap steel market. Both of those businesses are very depressed, and they expect that both areas will be down in 2016.

They began to re-energize their mergers and acquisitions (M&A) pipeline about nine months ago, and there are a lot of really interesting opportunities out there, according to Allan.

There are several candidates in Tools & Storage that are in the $100 million to $500 million purchase price or acquisition cost range that would be bolt-on acquisitions. They have done more than 100 acquisitions over the past decade and have only one (Niscayah) that did not go as well as expected. The Infastech acquisition three years ago went very well in large part because it was a privately-held company and they were able to have a significant integration plan in place on day one.

NEWELL RUBBERMAID

Newell Rubbermaid will acquire consumer products maker Jarden Corporation for more than $15 billion in stock and cash. Jarden, based in Boca Raton, Florida, was founded in 2001. Analysts say that the two companies sell to many of the same customers, but have little overlap in actual product categories. Analysts also noted that Newell's "impressive track record" on cutting costs could benefit Jarden. The two companies also have complementary international footprints, with Jarden having a sizable presence in Europe and NR growing in Latin America. Newell, with a market capitalization of about $12 billion, is slightly larger than Jarden, valued at $10.5 billion. Newell-Rubbermaid said they expect roughly $500 million in annualized cost savings over four years, particularly in the areas of distribution and transportation. Goldman Sachs was the lead advisor on the deal, which is projected to close in the second quarter of 2016.

The newly combined consumer giant will be called Newell Brands. Jarden has more than 100 brands in their portfolio, including Mr. Coffee machines, Crock Pot, Yankee Candle, Marmot athletic gear, Oster and Sunbeam. Newell bought Rubbermaid for about $6 billion in 1998.

Michael Polk, currently NR's CEO, will serve as CEO of Newell Brands. Mark Tarchetti, currently chief development officer at NR, will become president. Jarden founders Martin Franklin and Ian Ashken will both serve on the board of the combined company. Franklin is expected to become the new company's biggest shareholder with a stake valued at more than $200 million.

TTI/TECHTRONIC INDUSTRIES

Milwaukee Electric Tool is considering a $33 million expansion of their Brookfield, Wisconsin headquarters that could add around 500 jobs over the next five years. Over the past decade Milwaukee has redeveloped 190,000 square feet of former manufacturing space to accommodate such functions as research and development, packaging design, marketing, sales, training and administration. Most of the new jobs would be in engineering and marketing. Senior Brand Manager Kharli Tyler told the *Milwaukee Journal Sentinel* that while they do not disclose sales figures, they have seen double-digit annual sales increases over the past several years. They have added more than 140 cordless tools since 2007, along with other new tools, and their new products are helping them obtain new customers.

TRIMBLE NAVIGATION

Tekla Corporation transitioned to the Trimble brand as of January 2016. Trimble acquired Tekla in 2011 and the rebranding reflects both the evolution of Trimble and their vision for the future. Trimble and Tekla have a common goal to transform the building lifecycle through technology and drive increased collaboration across the industry. Trimble has a broad portfolio of what is known as Design-

Build-Operate (DBO) solutions. Tekla's Building Information Modeling (BIM) software solutions help them better serve the construction industry, which is rapidly moving to the BIM process.

RETAIL

RETAIL SALES RISE 0.2%

Retail sales rose 0.2% in November after rising 0.1% in October. Core retail sales, which exclude food, gasoline, building materials and auto dealers, rose 0.5% after rising 0.2% in October. It was the largest increase in core sales in four months, and exceeded expectations. There were solid gains across most categories. Receipts at gas stations fell 0.8%, putting a dent in gains. Sales aren't adjusted for pricing, so falling gasoline prices have a big impact. Compared to November 2014, retail sales were up 1.4%. Core sales gains exceeded expectations for a 0.4% rise. Core retail sales correspond most closely with the consumer spending component of GDP. The savings rate of 5.6% was the highest since 2012, and an indication that households are still cautious and saving much of the windfall from lower gas prices. Nonstore retailers' sales were up 0.6%.

2015 GLOBAL RETAIL SALES OVERVIEW

More than one-fifth of the world's retail sales occurred in the United States in 2015, according to the latest forecast of retail and ecommerce sales from eMarketer. The research company estimates that total U.S. retail sale reached $4.8 trillion in 2015 and will approach $5 trillion in value in 2016. Retail ecommerce in 2015 accounted for 7.1% of all retail sales in the U.S. By 2019, eMarketer expects online sales to account for 9.8% of sales. In Western Europe, 7.5% of retail sales occurred online. The highest percentage of online sales in the world is in Asia-Pacific, where ecommerce accounts for 10.2% of overall retail sales.

2016 RETAIL SALES OUTLOOK

Moody's forecast that retail sales will improve 4% to 5% during the first half of 2016. Sectors expected to see strong growth in both sales and earnings include home improvement.

BLACK FRIDAY SALES NOT PREDICTIVE

Reports about Black Friday traffic and store sales should be largely ignored, observes FiveThirtyEight.com, as reported in Seeking Alpha. The correlation of total holiday season revenue to the length of lines at stores during Black Friday and the weekend sales results in years past has been nearly non-existent. This is due in part to the paradox that budget-conscious customers are more likely to shop on Black Friday than more affluent customers.

ONLINE SALES THIRD QUARTER

Online sales grew 15.1% to $87.5 billion in the third quarter, according to the U.S. Census Bureau. Amazon had sales of $25.4 billion in the quarter, a year-over-year increase of 23%. Growth in North America was 28%. Walmart reported a 10% increase in global ecommerce sales, and Target saw sales rise 20%, above the national average but below their expectations of 30% growth. Analysts say that omnichannel sales can make it difficult to assign sales to a particular channel, as customers can do research online, then come to the store to check out the item before actually purchasing it either in the store or online. Haresh Gurnani, executive director of the Center for Retail Innovation at Wake Forest University School of Business, says that retailers need to master four basics to succeed in ecommerce. They must have a convenient, easy-to-use website, fulfill orders quickly and efficiently, be transparent about shipping costs and return procedures and ensure privacy and control fraud.

RECORD THANKSGIVING WEEKEND

The Sunday of Thanksgiving weekend was the first billion-dollar online shopping Sunday. Saturday online sales topped $1 billion for the second consecutive year. The Saturday-Sunday sales total was up 8% from 2014 to $2.2 billion. About 107.8 million U.S. online shoppers visited ecommerce sites Cyber Monday using a desktop computer, smartphone or tablet, a 23% increase from 2014, according to comScore. Amazon had the most visitors, followed by Walmart, eBay, Target and Best Buy. More than half of all desktop dollars originated from work computers. The 35 to 54 age group accounted for 46% of total dollars spent on Cyber Monday, with women accounting for 62% of shoppers.

GIFT CARD TRADES

Target is now offering a gift card trade-in program in most stores to compete with numerous gift card exchange websites that buy cards for cash and resell them at a discounted rate. Retailers are looking for ways to take advantage of the opportunity that could be created when a customer wants to trade cards. Target is offering an instant exchange in stores: bring your card to the mobile phone counter, and you will be offered a Target gift card for less than face value. For example, a $100 Walmart card can be exchanged for an $85 Target card. However, a $100 Walmart card can be traded in for $93 cash through the card exchange site Cardpool. Last year Walmart offered an online exchange program through a partnership with CardCash.com. Gift cards have been the most requested gift item for the holidays for the last nine consecutive years, according to the National Retail Federation. Total spending on cards for this past holiday season was expected to reach $25.9 billion. However, Americans have left more than $44 billion in gift cards go unused since 2008, according to a study published in 2014 by CardHub.

THE HOME DEPOT

From Their Investors & Analysts Conference:

They focused on three main work streams: identifying potential disruptors to their business, which they refer to as war games; looking for ideas that would expand their sales growth over the next three to eight years; and identifying tactics that would improve productivity.

They see a significant opportunity to grow sales and be more productive and efficient, and plan to reach $101 billion in sales by 2018. That's a growth of $13 billion over the next three years, or the equivalent of adding 357 new Home Depot stores, which they are not going to do.

Customer expectations of them are changing and getting higher. Today customer expectations cross all channels. Their strategy has not changed, but is evolving to reflect the changing needs of customers and of their business. Consumer expectations are much higher today; things that were unimaginable just five years ago now are viewed as almost basic necessities.

They reiterated the importance of their three-legged stool: customer service, product authority and productivity and efficiency.

The customer experience is much more than customer service. Today it is about providing a seamless and frictionless experience wherever and however the customer chooses to interact or shop.

They have to continue to work at interconnected retail: connecting their stores to their website and the website to the stores.

They are bringing more science to the art of merchandising, which is enabling them to better understand customer preferences and localize assortments.

The stores used to be an advantage because of their sheer size; that advantage has been somewhat neutralized by the digital world. But that world allows for a level of product customization that is not possible in a store setting.

They are also focused on moving products more efficiently from suppliers to shelves to customers.

They are pushing themselves to be the low-cost providers in the marketplace, which means much deeper cross-functional internal work and a completely different approach to working with external suppliers, one that requires deeper, more integrated and longer-term planning.

The home improvement market for Pro and consumer is estimated to be about $300 billion, with Pros accounting for about 40% of that market.

The services market is estimated at $200 billion; about 70% of that is labor, the remaining 30% is product pull-through.

MRO (maintenance, repair and operation) is about a $50 billion market which includes residential, multifamily, hospitality and institutional customers.

They have plenty of opportunity to grow market share. In the past they said they owned about 27% of the addressable home improvement market. With the addition of services and MRO, they now believe their share is about 15%, so big upside potential.

They are not going to invest in international expansion. They believe they have the best opportunity to grow in the U.S. , Canada and Mexico.

They are not going to invest in new store formats, which they've tried in the past with little success.

They are not going to invest in acquisitions to buy sales. They will add capabilities they either cannot build effectively or that are easier and cheaper to acquire than build.

Looking ahead, they see significant growth opportunities in interconnected retail and Pro, which includes professional contractors and services.

Earlier in the year they set up a separate group to deal exclusively with Pro needs and MRO and installation. They are excited about the opportunity because it will allow them to tap into the 37% of housing that is rental as well as serve homeowners.

Product innovation continues to be a driver of growth in the business. The adoption rate of lithium battery technology has been amazing.

People are changing the way they use their homes, with more people telecommuting, and people are staying in their homes longer as they age.

Their typical do-it-yourself consumer accounts for about 60% of their total sales, interacts with them five times a year, and spends a total of $330.

The majority of their customers are baby boomers who own their own home; 25% of them earn more than $100,000 per year.

Boomers are now more interested in do-it-for-me than they used to be. THD currently performs more than 2 million installs every year, done by more than 100,000 Pros who work with them.

Their research shows that millennials want to learn how to do projects themselves and want to do business with a company that truly cares about them and their community.

Pros account for 3% of customers but 40% of sales, and interact with THD an average of 66 times per year with a total annual spend of about $6,500.

Looking at their Pro customers, they break them down into transactional, complex and business-to-business. Transactional Pros are handymen or small property managers, and account for the majority of Pro customers. However, complex Pros account for more than half of Pro sales. Complex Pros are medium spend remodelers or renovators and potential installers for their services business. They usually have crews that work for them.

Currently Pros come into the stores, pull their orders and take them to jobsites. Soon THD will be doing Buy Online Deliver From Store (BODFS), which transfers the work from the customer to Home Depot.

They estimate the total size of the combined Pro markets at $550 billion, not including industrial and manufacturing end markets.

In 2016 they will roll out customer order management (COM) in all stores, so all vendors and customers will be able to access relevant order information online, which will solve a lot of problems they currently have with special orders.

They are pilot testing the concept of consistent schedules. That would provide associates with three shift schedule options in which they would be consistently scheduled.

They anticipate the demand for smarter products in the home will continue to grow, and cited an industry study that found that there will be more than 500 smart home products in the typical family home by 2020.

They are partnering with suppliers to develop new applications for lithium ion technology that can help solve what they call customer "pain points."

They have taken 500 basis points of share in power tools and are now the product authority in power tools.

They have a goal to work more collaboratively with their supplier partners in order to understand customers better, reduce complexity, plan collaboratively and execute more quickly.

They worked with professional grade outdoor power equipment manufacturer Echo and TTI to develop a new cordless platform for outdoor products that is channel exclusive to Home Depot.

They are working more closely with suppliers to do more targeted digital marketing so they send appropriate messages at the right time and don't confuse customers.

A Look Into Interconnected Retail:

THD refers to their online business as interconnected retail. They have an online catalog of more than 1 million SKUs. They will spend more on digital marketing than they do on traditional print and TV in 2016.

Online sales currently represent a little more than 5% of total sales, but at the end of the third quarter their growth rate year-to-date was 26%. Their digital business will grow nearly $1 billion in 2015, and they believe it will continue to grow significantly.

Nearly 50% of digital traffic comes from mobile and tablets, and is the fastest growing part of digital traffic.

The physical world and the digital world need to come together seamlessly and without friction for the customer.

They are using the digital world to help customers navigate the physical world, providing online inventory visibility, pricing and item location on a store map. They can sense from a mobile device whether the customer is inside the store or somewhere else and respond accordingly.

They have completely retooled their direct-to-consumer supply chain with three new direct fulfillment centers. Their new 1.6 million square foot center is the largest building THD has ever opened.

When a customer changes an address, they are moved into a new mover group, and receive targeted messages, which are further refined based on the customer's browsing history.

They are working on a new Web platform that will grow with them and will continue to invest in digital capabilities that take the friction out of customer interactions.

Other News:

Home Depot released a new set of ambitious financial targets they hope to achieve in three years through mastering interconnected retail. They expect to reach $101 billion in sales by 2018, which would be equal to a compound annual growth rate of about 4.7%.

WALMART

Walmart outlined a three-year plan to grow sales by $45 billion to $60 billion and spend $20 billion buying back Walmart stock by the end of fiscal 2019. They also announced an $11 billion capital expenditures program, which would be down from the $12.4 billion spent in 2015. Walmart shares took a beating after Walmart announced reduced earnings expectations due to big investments in technology, wages and pricing, plus the impact of a strong dollar.

Walmart wants to step-up their efforts to attract higher-income customers, and views improvements in ecommerce, grocery pickup and the creation of smaller-format stores as key to helping them compete. CEO Doug McMillon told analysts that income growth worldwide will come “disproportionately” from middle-and upper-income households, with middle-income households projected to drive 50% of retail growth. Currently about 30% of Walmart shoppers make between $50,000 and $99,000, which is identical to the percentage of U.S. households in that income range. About 21% of their shoppers make $100,000 or more, slightly below the 23% in that range in the U.S. A 2014 Kantar Retail report described the average WM shopper as a 50-year-old making $53,125 annually. The average Target customer was defined as 38 years old and earning $65,125 annually. Walmart has tried to target more affluent shoppers in the past with poor results. Edward Jones retail analyst Brian Yarbrough said that shoppers who prefer chains like Target and Costco are loyal to those brands and Walmart will need to make significant changes to attract them.

Analysts estimate that Walmart has already poured more than six billion dollars into a gigantic project called Pangea, named for the prehistoric supercontinent that broke apart to rearrange world geography. Pangea’s goal is to rearrange the world’s biggest company into a digital powerhouse that will dominate ecommerce. Since 2012 Walmart has made 15 acquisitions and hired 3,600 people to improve their ecommerce operations. Walmart has built a new cloud infrastructure and written their own search engine as part of the project. One of the innovations that was offered up for Black Friday was an opportunity for customers to use Walmart’s mobile app to search inventory and see a map of hot products on the shelves. Their new software systems also allow them to collect customer data without having to create a loyalty program. Walmart is expected to spend another $2 billion on ecommerce this year.

Walmart promoted Tony Rogers to U.S. chief marketing officer. Rogers was most recently the marketing chief for Walmart China. He’s succeeding Stephen Quinn, who has been chief marketer since 2007 and retired at the end of 2015.

Walmart is retaining Target's former marketing whiz Michael Francis as a marketing consultant. Francis, who spent three decades at Target, is widely credited with being the architect of Target’s cheap-chic image. Francis will initiate a broad revamp of Walmart’s marketing department and likely work closely with new chief marketer Tony Rogers. Francis left Target in late 2011, spent eight disastrous months at J.C. Penney, and most recently spent three-years as chief global brand officer for DreamWorks.

Walmart spent an estimated $902.4 million on U.S. ads in 2014, not including digital video, social or mobile advertising. WM currently works with the Martin Agency, a unit of Interpublic.

Walmart launched their own mobile payment service, Walmart Pay, ending the ambitions of a mobile wallet program called CurrentC they’d been co-developing with a consortium of retailers. Years of delays, a data breach and management changes hurt CurrentC, and the exclusive agreement they had with most members has ended. Walmart Pay will be a part of Walmart’s mobile application.

TARGET

Target introduced same day delivery to Chicago, where customers can now order items from Target via the Instacart website or Target’s mobile app and have their order delivered in as little as an hour. Target and Instacart tested their delivery partnership in Minneapolis and San Francisco before expanding it to Chicago.

Target is in the early stages of developing their own mobile wallet, according to Reuters. Reuters reported that inside sources believe that Target’s mobile wallet could launch as early as 2016.

Target is giving Target mascot Bullseye a greater role in events and marketing as part of their efforts to restore some of Target’s former “magic.” It’s been several years since Bullseye had a featured role in marketing efforts. Target is transforming what they call the “first impressions” area at the front of the stores into Bullseye’s Playground, which will feature blown-up Bullseye figures and a carefully chosen selection of seasonal merchandise. Target has also installed Bullseye benches at more than 1,400 stores, where shoppers can pose with a replica Bullseye for a selfie. Bullseye is also starring in several adds, including one featuring Star Wars storm troopers and another that promoted a Christmas digital storybook app for children. Bullseye was also a regular at Target's winter wonderland pop-up store in New York.

Target says digital advertising now makes up about 60% of their media spending, compared to just a fraction five years ago. According to Socialbakers, the social media analytics company, Target ads made up four of the top 10 most viewed YouTube ads between November 1 and December 14.

Target announced they will be working toward eight new sustainability commitments as part of the White House's Climate Pledge. Among them are getting 80% of their buildings Energy Star certified, reducing energy intensity per square foot by 10%, expanding their investment in offsite renewable energy, reducing water use by 10% and reusing or recycling 70% of retail waste.

W.W. GRAINGER

Sales fell 2% in November after slipping 1% in October. Sales included 4% from Cromwell Group, acquired on September 1, and a 3% reduction from foreign exchange. Excluding acquisitions and FX, organic daily sales declined 3%, driven by a 1% decline in price and a 2% decline in the sales of seasonal and safety products. In November 2014, incremental sales of Ebola-related safety products and winter storms added to sales growth. Sales were down 5% in the U.S. and 14% in Canada in local currency (27% in U.S. dollars).

AMAZON

Amazon is seeing growth in their Prime subscriptions. A Cowen Consumer Survey in November revealed that 38% of 2,500 respondents said they lived in a Prime household, which projects out to about 41 million Amazon Prime subscribers in the U.S. That would mean Prime members represent about 49% of customers purchasing on Amazon, up from 41% in 2014. Since the Cowen survey began in 2012 the number of Amazon Prime households has more than doubled, from 18% in December 2012 to about 39% in November 2015. Cowen found that Amazon purchasers have an average household income of $63,000 and a median age of 40. Prime subscribers have an average household income of $69,000 and a median age of 36.5. The average household income of an Amazon customer is about 12% higher than Walmart, but 6% lower than Target, 19% lower than Costco and 21% lower than Macy's.

Macquarie's analysts expect Amazon to account for 51% of U.S. ecommerce growth and 24% of retail growth overall when this year's numbers are finalized. According to Macquarie, Amazon's share of ecommerce is expected to grow 400 basis points in 2015 to 26%, Amazon's fastest rate of growth ever. Back in the fourth quarter of 2000 the internet accounted for just 1% of total retail sales. The Analysts say that what Amazon learned how to do best was to make the customer experience painless.

Amazon announced 11 partners for their Dash Replenishment Service, which allows compatible connected devices such as Samsung printers and Brita water pitchers to auto-order replenishments when stocks are low. Amazon Dash Replenishment Service (DRS) enables connected devices to order physical goods from Amazon when supplies are running low. Amazon not only sells the replacement products but has found a way to provide a service to a customer they may not already be reaching. DRS can be integrated with devices in two ways. Device makers can either build a physical button into their hardware to reorder consumables or they can measure consumable usage so that reordering happens automatically. Samsung printers and August smart locks are among the devices that are using this technology. Device makers can start using DRS with as few as 10 lines of code.

Amazon has reportedly bought thousands of truck trailers and plans to create a fleet of Amazon-branded trucks to move goods between their U.S. fulfillment centers. Trucking partners will still own and drive the tractor portion of the trailers, just as UPS and FedEx truckers do.

MARKET TRENDS

CONSTRUCTION WORKER SHORTAGE

Unfilled job openings in the construction industry have been going up steadily since 2009, and NAHB reports that many builders say they are having trouble finding qualified new workers. The Census Bureau took a deeper look at the labor market in construction, and concluded that more than 60% of the construction workers who were displaced during the housing bust and the Great Recession have either found work in another sector or had left the labor market altogether by 2013. Census reports that a persistent drop in hiring younger workers over the last decade has also contributed to the skilled worker shortage. Overall, hires of workers younger than 45 years old fell from 73% of construction hires in 2000 to 63% in 2011. The percentage of hires accounted for by the 19 to 25 age group declined from a peak of 18% in 2006 to 13% by 2013. Participation by the same age group in other industries has remained constant at about 15%. During the housing boom many workers left jobs in other industries, particularly leisure and hospitality, for better paying construction jobs. About 40% of workers who were unemployed for more than a quarter eventually were recalled by their old employer or found another construction job. About one-third found work in another industry, typically after being unemployed for about a year. Few moved back into leisure or hospitality, where jobs pay less and are often not very secure. Most migrated to trade/transportation and business services. Many became general laborers, some turned to landscaping, and some became truck drivers, a job category that pays well and is also experiencing big worker shortages. Despite the boom in mining, former construction workers account for fewer than 5% of new mining jobs.

MIDDLE CLASS LOSING GROUND

America's middle class is now equal in number to those in economic tiers both above and below. In early 2015, 120.8 million adults were in middle-income households, compared with 121.3 million in lower-and upper-income households combined. The Pew Research Center says this is a demographic shift that could have big implications for the future. Upper income households accounted for 49% of U.S. aggregate income in 2014, up from 29% in 1970. In 1970 middle-income households accounted for 62% of household wealth; that fell to just 43% in 2014. In 2015, 20% of American adults were in the lowest-income tier, up from 16% in 1970. On the other end of the ladder, 9% are now in the highest-income tier, up from 4% in 1971. Upper income families more than doubled their wealth from 1983 to 2007. In the study, which is based on extensive data from the Census Bureau and the Federal Reserve Board, "middle-income" Americans are defined as adults whose annual household income is two-thirds to twice the national median, or about $42,000 to $126,000 annually in 2014 dollars for a household of three. Seniors today are much better off than they were in 1971. Today just 10% of those over 65 are in the lowest income tier; in 1970, 24.6% of seniors were living in poverty.

ARTIFICIAL INTELLIGENCE

Consumers want artificial intelligence to be beneficial intelligence, according to Trend Report. They want technology to save them time, money and make things easier. The Trend Report cautions companies to embrace technology not for what it can do, but for what it can do to meet consumers' needs and wants. Consumers' expectations are rapidly rising, fueled by same-day delivery, instant video and dozens of other technological advances that teach consumers that their needs should be met immediately and in full. Consumers now get aggravated when products that they assume to be smart are not smart enough about anticipating and meeting their needs.