

# Market Briefing

2016 Issue 2 News from the month of January 2016



**BOSCH**  
Invented for life

Bosch

Dremel

Skil

RotoZip

Vermont American

CST/berger

David White

freud

Sia

## US Economy pages 2-4

Consumer Confidence Rises to 98.1

Consumer Spending Flat

Consumer Prices Fall 0.1%

Unemployment Falls to 4.9%

Durable Goods Orders Fall 5.1%

Chicago PMI Rebounds to 55.6

Wholesale Prices Fall 0.2%

Q4 GDP Grows 0.7%

## Housing & Construction pages 4-6

Housing Starts Fall 2.5%

- NE 24.4%, MW -12.4%, W -7.6%, S -3.3%
- Single-family starts -3.3%

Building Permits Fall 3.9%

- NE 3.6%, MW -12.4%, W -7.6%, S -4.4%
- Single-family permits 7.9%

New-Home Sales Rise 10.8%

- NE 20.8%, MW 31.6%, W 21%, S 0.4%

Existing Home Sales Rise 14.7%

- NE 8.7%, MW 10.9%, W 23.2%, S 14.6%
- Single-family sales 16.1%

Builder Confidence Holds Steady

Mortgage Rates Fall to 3.79%

## Power Tool Industry pages 6-7

Robert Bosch

- 2015 revenue rises 10%
- 2016 forecast
- International Builders' Show

Stanley Black & Decker

- Q4 sales drop 4.6%; sales for 2015 drop 1.5%
- DeWalt sweepstakes for Pros

Newell Rubbermaid

- Q4 sales rise 2.3%
- Mark Tarchetti to lead Newell Brands

Trimble Navigation

- Robert Painter new CFO

Hexagon

- Acquires Paul MacArthur Limited

## Retail pages 7-12

Retail

- Retail sales fall 0.1%

The Home Depot

- From their annual analysts' conference
- Replaces head of U.S. stores

Lowe's

- Orchard Supply expansion
- Seasonal hiring plans

Walmart

- Closing underperforming stores
- New areas of focus
- Combines IT and ecommerce groups

Target

- Replaces chief stores officer
- Digital focus improves sales

W.W. Grainger

- Q4 sales fall 1%; 2015 sales flat
- 2016 guidance

Amazon

- Q4 sales grow 22%; sales for 2015 grow 20%
- Growth in Prime subscribers
- Registers as a Chinese freight forwarder

## Market Trends page 12

The New American Home

Trends for 55+ Housing

Construction Industry Invests in Tech

The Future of Computing

Intelligent Machines vs. Humans

Robert Bosch Tool  
Corporation

1800 W Central Rd  
Mount Prospect, IL  
60056 USA

[www.boschtools.com](http://www.boschtools.com)

## U.S. ECONOMY

### EXCHANGE RATES JANUARY 29, 2016

Euro	1 Euro = \$1.083	\$1.00 = 0.923 Euros
Canadian Dollar	1 CAD = \$0.710	\$1.00 = 1.407 CAD
Japanese Yen	1 Yen = \$0.008	\$1.00 = 121.082 Yen
Chinese Yuan	1 Yuan = \$0.157	\$1.00 = 6.375 Yuan
Mexican Peso	1 Peso = \$0.055	\$1.00 = 18.212 Pesos

### MARKET WATCH JANUARY 29, 2016

DOW	16,466	- 5.5%
NASDAQ	4,614	- 7.9%
S&P 500	1,940	- 5.0%

In January the stock market continued on the turbulent course that marked the end of 2015, with China's economy and plunging gas prices sending equities falling throughout the month. Markets surged on the last trading day after the Bank of Japan's surprising decision to join the European Central Bank along with some good corporate earnings from major tech companies. Still, all three indexes were down for the month, with the DOW falling 5.5% to 16,466, the NASDAQ dropping 7.9% to 4,614 and the S&P, the index most closely followed by economists, falling 5% to 1,940.

### CONSUMER CONFIDENCE RISES TO 98.1

The New-York based Conference Board's Consumer Confidence Index rose to 98.1 in January after rising to 96.5 in December. The Present Situation Index was unchanged at an upwardly revised 116.4. The Expectations Index rose to 85.9 in January after rising to 83.9 in November. The Conference Board said that consumers now expect conditions over the next six months to improve moderately and do not foresee the volatility in financial markets as negatively impacting the economy. 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 FLAT

Consumer spending was flat in December, but spending for November was revised up to 0.5% from 0.3%. The savings rate edged down to 5.5% after rising to 5.6% in October. Personal income rose a solid 0.3% for the second consecutive month. The numbers show that almost all of the spending growth that occurred in the last quarter of the year occurred in November, possibly driven by Black Friday deals. Spending in November was mostly driven by the purchase of durable and non-durable goods. In December consumption was driven by services purchases. The saving rate rose from 5.3% of disposable personal income in November to 5.5% in December, the highest savings rate in three years. Economists say that the higher savings rate should support better consumer spending in the first quarter. Even though consumers are paying down debt, lenders report that some are beginning to borrow again, especially in the credit card segment. Consumer spending is closely watched by economists because it accounts for 70% of U.S. economic activity.

### CONSUMER PRICES FALL 0.1%

The Consumer Price Index (CPI) fell 0.1% in December after being unchanged in November. In the 12 months through December the CPI rose 0.7%. It was the weakest annual increase since a 0.1% rise in 2008. Core prices, which strip out volatile food and energy costs, rose 0.1% in December after rising 0.2% for the previous three consecutive months. In the 12 months through November core inflation was up 2.1% after rising 1.6% in 2014. Some analysts see the uptick in core inflation as a sign that inflation outside of energy and food is beginning to accelerate. The 2.1% increase in core inflation for the 12 months ending in December was the largest 12-month gain in core prices since July 2012. Driving core inflation in December were increases for shelter costs, medical care, home furnishings and education. Energy prices fell 2.4% in December and were down 14.9% for 2015. Falling energy prices are primarily responsible for the small rise in inflation. The Fed tracks the personal consumption expenditures price index, excluding food and energy (PCE), which has been running at about 1.3% over the past year.

## UNEMPLOYMENT FALLS TO 4.9%

**The unemployment rate fell to 4.9% in January from 5.0% in December and the economy added 151,000 new jobs.** In addition, job gains for December were revised down by 30,000 to 260,000 and gains for November were revised up by 28,000 to 280,000. The job market participation rate rose to 62.7% from 62.6%. Falling unemployment and rising participation indicate that more people are getting jobs and more people are coming into the workplace. Average wages jumped 2.5% over the past 12 months, an indication that job growth is helping to generate larger pay increases. Warehousing, transportation and retail all added jobs, showing strength in the supply chain. Most analysts concurred that the report was solid, and that a recession in the next twelve months remains unlikely. The economy needs to create just under 100,000 jobs each month in order to keep up with growth in the working age population, according to Fed Chairman Janet Yellen.

## DURABLE GOODS ORDERS FALL 5.1%

**Durable goods orders dropped 5.1% in December following a downwardly revised 0.5% decline in November.** Durable goods orders have fallen in four of the past five months, reflecting the pressures facing American manufacturers from a strong dollar and widespread global economic weakness. Orders for non-defense capital goods excluding transportation, which serve as a proxy for business investment spending, dropped 4.3% in December after falling 1.1% in November. Economists do not expect a quick turnaround. There is also concern about economic weakness in such key export markets as China, the world's second largest economy, and other emerging markets. Analysts believe export sales will continue to struggle as long as the dollar keeps gaining strength. Oil prices plunged to around \$30 per barrel during the month, triggering more cutbacks in investments from the oil and gas industry. The weakness in December was led by a 29.4% plunge in demand for commercial aircraft, typically a very volatile category. But demand was also down in a number of other areas. Excluding the transportation sector, orders fell 1.2% following a 0.5% drop in November. The durable goods report is often both volatile and subject to sharp revisions.

## CHICAGO PMI RISES TO 55.6

**The Chicago PMI jumped 12.7 points in January to 55.6,** which pushed the bellwether manufacturing index back above the level of 50 that indicates expansion. Results exceeded expectations that the index would remain below 50. The Chicago PMI averaged 47.7 in the fourth quarter, which was the worst performance since the third quarter of 2009. Four out of five components were up for the month. New Orders surged a robust 20.2 points to 58.8, the highest level in a year. Production also rose strongly. This latest increase supports economists' views that GDP will bounce back in the first quarter after slowing down as expected in the fourth quarter of 2015.

## WHOLESALE PRICES FALL 0.2%

**The Producer Price Index (PPI) fell 0.2% in December after rising 0.3% in November.** The PPI was down 1% from December 2014. It was the eleventh consecutive month that year-over-year PPI has declined. The core PPI, which excludes food, energy and trade services, rose 0.1% in December after rising by the same amount in November and was up 0.3% from December 2014. The PPI for inputs to construction fell 0.7% in December after falling 0.2% in November and was down 2.1% from December 2014.

## Q4 GDP GROWTH SLOWS TO 0.7%

**GDP growth for the third quarter was revised sharply downward to 0.7%** from the 2% growth estimated in December. GDP grew 3.9% in the second quarter. It was the weakest showing since a severe winter reduced growth to a 0.6% annual rate in the first quarter of 2015. Consumer spending for the third quarter rose 2.2%. Wells Fargo notes that despite some uncertainty, consumers are in a much better position at this stage of the business cycle. Household balance sheets are healthy and credit availability has improved. Residential investment continues to boost overall economic activity, and was up 8.1% in the fourth quarter. Much of the slower pace in real GDP growth was due to the volatile inventory component, which slashed 0.45% from GDP. Inflation remains below the Fed's 2% target, with overall inflation coming in at 0.8% with big declines in export and import prices. The Fed's benchmark PCE deflator came in at just 0.1%. Most

economists believe that GDP growth should rebound to a rate between 2.5% and 3% in the first half of this year as consumer spending picks up in response to further solid gains in job growth.

## JOB OPENINGS RISE

**The Job Openings and Labor Turnover Survey, or JOLTS report, showed that job openings rose by 82,000 in November** to 5.431 million, slightly below market expectations. October's job openings were revised down slightly. Government and private sector job openings both increased. Job separations rose by 29,000 to 4.930 million. The quits rate is still lower than it was at the peak level in May 2006 before the recession. The number of unemployed to job openings fell slightly to 1.46 and is moderately below the 12 month average of 1.58. This ratio has been declining since its July 2009 peak of 6.7. 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.

## ECONOMY ON TRACK TO GROW

**Despite the recent economic upheaval and bloodbath in the equity markets, Morgan Stanley says that the U.S. economy is on track to grow through 2020** and possibly longer. That would make the recovery from the Great Recession the longest U.S. expansion in the post-war period. Morgan Stanley says that fundamentals look solid, and the American economy is "the best house in a bad neighborhood." The U.S. added about 200,000 jobs per month in 2015, the second-best year of employment gains since 1999. Labor strength buoys consumer confidence, which is a primary driving force for the economy. Fewer Americans are in serious debt, and the amount of debt relative to disposable income has fallen from 135% in 2008 to 106% now. Corporate America has not overextended itself and created a situation that could cause a bubble. In addition, large companies have dramatically improved their balance sheets.

## GLOBAL GROWTH FORECAST

**For the third time in less than a year, the International Monetary Fund cut its global growth forecasts**, citing a sharp slowdown in China trade, weak commodity prices and rising interest rates in the U.S. The Fund now predicts that the world economy will grow 3.4% in 2016 and 3.6% in 2017, both years down 0.2% from previous estimates. The IMF says that policymakers should be considering ways to bolster short-term demand.

## HOUSING & CONSTRUCTION

### HOUSING STARTS FALL 2.5%

**Housing starts fell 2.5% in December** to a seasonally adjusted annual rate of 1.15 million units after rising to an upwardly revised 1.18 million units in November. Single-family starts fell 3.3% to a seasonally adjusted annual rate of 768,000 units from an upwardly revised November reading of 794,000 units, the highest level in seven years. Multifamily starts fell 1% to an annual rate of 381,000 units after rising to 405,000 units in November. **Regional starts were mixed.** Starts rose 24.4% in the Northeast. Starts fell 12.4% in the Midwest, 3.3% in the South and 7.6% in the West. Builders continue to be plagued by a shortage of lots and skilled labor. If housing starts returned to the pre-recession 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 FALL 3.9%

**Building permits fell 3.9% to a seasonally adjusted annual rate of 1.23 million in December** after rising to 1.289 million units in November. Single-family permits rose 7.9% to 740,000, the highest level in eight years. Multifamily permits fell 11.4% to 492,000 units. **Regional permit issuance was mixed.** Permits dropped 12.4% in the Midwest, 7.6% in the West and 4.4% in the South. Permits rose 3.6% in the Northeast. Permits have been above the one million level for eight consecutive months, the longest stretch in seven years.

## NEW-HOME SALES RISE 10.8%

**Sales of new single-family homes rose 10.8% in December** to a seasonally adjusted annual level of 544,000 units from an upwardly revised reading in November. For all of 2015 new single-family home sales rose 14.5% to 501,000 units, the highest level since 2007. The inventory of new homes rose to 237,000 units in December from 232,000 units in November. That's a 5.2-month supply at the current sales pace, down from a 5.7-month supply in November. **Sales increased in all regions**, rising 31.6% in the Midwest, 21% in the West, 20.8% in the Northeast and 0.4% in the South. **All regions except for the Northeast also posted annual gains**, with the West up 20.5% and the South up 17.6% for the year. 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 it was a great end to a very strong year and noted that the housing market should continue to make gains this year. Builders are increasing their inventory in response to more consumer interest, and housing inventory is now at its highest level since October 2009. 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 14.7%

**Existing home sales rebounded in December, rising 14.7%** to a seasonally adjusted annual rate of 5.46 million after falling to 4.76 million in November. It was the largest monthly increase ever recorded, and left sales 7.7% above December 2014. **Single-family home sales jumped 16.1%** to a seasonally adjusted annual rate of 4.82 million in December from 4.15 million in November. Sales were 7.1% higher than the pace of December 2014. The median existing home price rose to \$224,100, up 7.6% from December 2014. December's price increase was the 46th consecutive month of year-over-year gains in home prices. Total housing inventory at the end of November dropped 12.3% to 1.79 million existing homes for sale, and was 3.8% lower than December 2014. Unsold inventory is 3.9 months at the current sales price, down from 5.1 months in November and the lowest level since January 2005. The

percent of first-time buyers rose to 32% in December from 30% in November. A year ago, first time buyers also accounted for 29% of all buyers. All-cash sales, which are generally considered to be sales to investors, fell to 24% of sales in December from 27% in November and was down from 25% of sales a year ago. Distressed sales dropped to 8% of sales from 9% in November and 11% a year ago. **Sales were up in all regions**, rising 8.7% in the Northeast, 10.9% in the Midwest, 14.6% in the South and 23.2% in the West.

## BUILDER CONFIDENCE STEADY AT 60

**Builder confidence held steady at 60 in January** after being revised down one point to 60 in December. Builder confidence has been in the low 60s for the past eight months, which NAHB says is in line with a slow, gradual recovery. It was the nineteenth 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 eighth consecutive month the index has been at 60 or better. The component measuring sales expectations for the next six months fell three points to 63, the component gauging current sales conditions rose two points to 67 and the component charting buyer traffic dropped two points to 44. Looking at the three-month moving averages for regional HMI scores, the Northeast, Midwest and West each fell one point to 49, 57 and 75, respectively, while the South fell two points to 61.

## MORTGAGE RATES FALL TO 3.79%

**Freddie Mac reported that the average interest rate on a 30-year fixed rate mortgage (FRM) fell to 3.79% at the end of January** after rising to 4.01% at the end of December. At the end of January 2015 mortgage rates averaged 3.66%. Freddie Mac expects mortgage rates to rise to 4.7% by the end of the fourth quarter of 2016.

## HOUSING FORECAST

**Housing analysts predict that it will be a good year for home construction.** David Crowe, chief economist of the National Association of Home Builders, expects solid growth in construction of new homes. David Berson, chief economist of Nationwide Mutual Insurance's Nationwide



Economics, predicts 840,000 homes will be built this year, an increase from last year's 711,000. Housing economists and analysts note that a labor shortage continues to be a problem for the industry, which created 215,000 new jobs in 2015.

## POWER TOOL INDUSTRY

### ROBERT BOSCH

**Robert Bosch revenue rose 10% to 70.6 billion euros in 2015**, up from 64.2 billion in 2014. It was the first time that annual sales surpassed 70 billion euros. Sales grew in all divisions except industrial technology, which has been affected by weakness in the global mechanical engineering segment, and in all major regions except for South America.

**The Consumer Goods business sector grew sales 9.3% to 17.2 billion euros.** Best selling products included cordless power tools and smart appliances.

**Chairman Volkmar Denner highlighted the reasons behind Bosch's success in a difficult macro environment.**

"We were able to successfully continue our growth trend in a challenging business environment and a number of stagnating markets in 2015. A major driver of this positive business development was an increasing number of solutions for the connected world." Denner noted that Bosch is the only company worldwide active in all three levels of the Internet of Things (IoT).

**Chairman Volkmar Denner said that smart home technology is constantly improving** and by 2020 approximately 230 million households, 15% of the world's households, will be equipped with smart-home technology.

**Robert Bosch expects revenue growth to continue in 2016** and expects to also improve financial results and operating profits. However, they remain cautious given the turbulence of the global economy.

**Robert Bosch will acquire a minority stake in Reflekt GmbH**, a developer of applications for mobile devices and smart goggles. Financial terms were not disclosed.

**Bosch showcased innovative products and solutions for home, jobsite and community at the 2016 International Builders' Show** in Las Vegas. Innovations included Geothermal heat pump systems which use the constant temperature of the earth to provide heating, air conditioning and hot water, flexible security and home automation solutions for today's smart lifestyles that integrate intrusion and fire detection, video surveillance and home automation controls. Bosch Power Tools highlighted cordless tools, rotary hammers, fine woodworking tools and professional-grade circular saws. Bosch produces their own carbide for cutting and drilling and sources the best industrial diamonds. Bosch Software Innovations designs, develops and operates innovative software and systems solutions for the Internet of Things (IoT). The Bosch IoT Suite provides the technology basis for enabling IoT applications in a variety of industries.

### STANLEY BLACK & DECKER

**Sales for 2015 dropped 1.5% to \$11.2 billion.** Organic sales grew 6%. **For the fourth quarter, sales fell 4.6%** to \$2.8 billion, with 1% organic growth. Tools & Storage sales for the quarter dropped 3% year-over-year to \$1.8 billion, with organic growth up 3% in North America.

**DeWalt announced the Together We Build sweepstakes** for contractors and construction professionals. Entrants are asked to explain how they show American pride on their job sites, with the option to upload photos or videos to accompany their entry form. Entrants have the opportunity to win one of three DeWalt tool packages. Professional Products Group president Frank Mannarino said that they are bringing their manufacturing back to the U.S. and currently produce 62 million individual units of products at their seven manufacturing facilities in the U.S.

### NEWELL RUBBERMAID

**Net sales for the fourth quarter increased 2.3% to \$1.560 billion**, beating analysts' expectations. Core sales, excluding the impact from net contributions from acquisitions and divestitures and negative currency translations,

grew 6.2%. The company expects core sales growth for 2016 to range from 4% to 5%, while net sales should grow by 2.5% to 3.5%. NR expects foreign currency to continue to have a negative impact on earnings driven by the stronger U.S. dollar. On a normalized currency neutral basis, earnings guidance would indicate strong double-digit earnings growth. NR said that the Jarden transaction is on track for completion in the second quarter.

**NR's current chief development officer, Mark Tarchetti, is slated to become Newell Brand's president** when the merger between Newell Rubbermaid and Jarden goes through. He'll receive an extra \$3.6 million for staying around at least through late 2018. Tarchetti worked closely with NR CEO Mike Polk when they were both at Unilever, and was recruited by Polk in 2013.

## TRIMBLE NAVIGATION

**Robert Painter, currently a vice president and general manager of Trimble Buildings, became the company's new CFO** February 1. Current CFO Francois Delepine left to pursue another opportunity. Painter assumed leadership of Trimble's business development when he joined the company in 2006 and led all acquisition activity for three years.

## HEXAGON

**Hexagon acquired Paul MacArthur Limited**, one of the UK's leading suppliers of surveying equipment to the engineering and infrastructure market. SCCS has been a Leica Geosystems distributor for more than 20 years.

## RETAIL

### RETAIL SALES FALL 0.1%

**Retail sales fell 0.1% in December** after rising an upwardly revised 0.4% in November. The biggest drag on retail sales continues to be lower prices at the pump. Sales aren't adjusted for pricing, so falling gasoline prices have a big impact. Gas prices fell 1.1% in December. Core retail sales fell 0.3% in December compared to the expected 0.3% increase and November's core sales growth

was dropped to 0.5% from the 0.6% core growth first reported. Core retail sales correspond most closely with the consumer spending component of GDP. For all of 2015, purchases climbed 2.1%, the smallest advance of the current economic expansion, following a 3.9% gain in 2014. The strongest sectors of retail throughout 2015 were sporting goods, hobby, book and music stores.

## HOLIDAY RETAIL RESULTS

**Retail sales for the holiday period, which runs from October 31 through January 4, increased 3%**, less than the 3.7% increase the National Retail Federation had predicted. The NRF blamed the lower results on unseasonably warm weather in much of the country that depressed sales of winter apparel and other seasonal merchandise. Retail chains saw traffic drop 6.4% during November and December at physical stores, according to RetailNext, which collects data through analytics software they provide to retailers. Sales at stores slipped 2% for the period. Online sales were a bright spot, jumping 9% to \$105 billion, according to NRF. Wells Fargo called it a disappointing year for holiday sales.

## THE HOME DEPOT

**From their Investor & Analyst Conference, Part Two:**

**Bill Lennie, EVP Outside Sales & Service, discussed their strategy to service Pros:**

**While various Pro customers have different needs**, their goal is to serve them all through one integrated approach.

**They want to move from being the 7-Eleven for larger Pros to being their primary one-stop-shop.**

**In the past they have virtually ignored the professional who installs projects for their do-it-for-me customers.** They believe they can better serve this customer.

**They believe they can appeal to large national property managers** by combining the roles of MRO suppliers such as Interline for recurring MRO needs, with the intermittent need for core building materials for renovations and remodels, something MRO suppliers don't do. They can also

offer installation services such as kitchen and countertop refreshes and other remodels.

**If they can be the one supplier who does it all for large property managers**, they will save the customer a lot of time and money as well as produce consistent results.

**THD estimates they currently have about a 15% share of the \$550 billion installation and MRO markets.** Their services business currently accounts for about 4% of revenue.

**They are having great success with their Pro account representatives**, or PARs. Currently 200 sales reps service their largest in-store Pro customers. This level of service quickly pays for itself through higher purchase volumes from managed accounts.

**Their Pro Xtra Pro-focused rewards program has more than 3.4 million members** and allows them to build loyalty with their best customers through purchase tracking, exclusive offers and several business tools. The goal of the program is to strengthen bonds between THD and their Pro customers.

**Pro Xtra members spend 18% more in the first year after they sign up**, and tend to be highly active, with twice as many transactions as the average Pro.

**They manage more than 2 million installs every year** through a network of more than 100,000 badged third-party Pros who serve as an extension of the Home Depot brand and take them inside the customer's home.

**This business is doubly attractive** since it produces revenue and the opportunity for additional product sales to do-it-for-me customers as they complete their projects.

**Their research shows that not all installs are alike.** They should do some installs with their own installer Pros, while other customers should be referred to an outside Pro through Redbeacon, which they acquired several years ago.

**The third aspect of their Pro growth strategy is expanding further into the MRO market.** Their recent acquisition of Interline gives them an advantage going forward.

**Interline stocks more than 100,000 break/fix products** and an expansive distribution network for next-day or same-day delivery.

**They are just now completing the functional integration of Interline**, eliminating redundant activities and identifying opportunities for synergies.

**Over the next 18 to 24 months they will be working on the final stages of integration** that will offer an integrated salesforce, common inventory and order management, enhanced delivery solutions and credit availability for Pro customers.

**Mark Holifield, EVP-Supply Chain & Product Development, discussed their Supply Chain:**

**They are focusing on two main areas** in continuing to transform their supply chain: enabling direct fulfillment and delivery to the customer and optimizing core store supporting supply chain through a new program called Supply Chain Synchronization, or Project Sync.

**They now operate 18 rapid deployment centers (RDCs).** The RDCs handle more than 50% of the stores' product flow dollar volume. They don't hold inventory but use information management and product assortment to allow for last-minute allocation of incoming goods to meet demand.

**They've invested in three new direct fulfillment centers (DFCs)** in order to better serve the needs of customers who want products delivered directly to them.

**Over the next few months they expect to complete their core distribution infrastructure in Canada**, and will open a new site in Calgary early this year.

**Their delivery volume is now well over 20 million deliveries per year**, including delivery from their DFCs,



suppliers drop shipping directly to customers, store-based delivery and appliance delivery.

**Inventory cost is about \$1 million per store lower than it was in 2006** on a per store basis with roughly the same sales per square foot.

**The next phase of Project Sync is now in pilot in their Houston, Texas RDC** and the stores it serves. The Sync program reduces product handling and has also reduced shrink.

**They are working on a variety of programs with their suppliers** that are helping them cut their lead times from 11 days from supplier to store shelf to as few as five days. **They are pleased with their progress** but feel there is still a lot of opportunity to improve the supply chain.

**Carole Tome, CFO, on financial guidance and targets and their views of the economy:**

**They expect fiscal 2015 sales to increase by 5.7% with comp sales growth of 4.9%** after accounting for the impact of a stronger U.S. dollar, which they believe will negatively impact total sales growth by \$1.4 billion for 2015.

**They believe their U.S. market is healthy and will remain that way** for several years, and believe the same is true of their markets in Canada and Mexico.

**They have more than recovered the \$13 billion in sales they lost during the recession**, but many of their U.S. categories have not fully recovered, so they have more upside potential in repair and remodel items and big-ticket.

**Over the next three years GDP is projected to grow on average about 2.6%**, which is the basis for their sales projections. Since 2010 consumer spending has been the largest contributor to GDP growth.

**They look at private fixed residential investment (PFRI) as a percent of GDP.** For more than 60 years PFRI has averaged around 4.5% of nominal GDP. At the end of the third quarter PFRI stood at 3.4% of nominal GDP, so has a long way to go to reach full recovery.

**The Case-Shiller national price index has grown by 27%** since home prices started to appreciate in 2012, although prices remain about 6% below peak.

**The U.S. housing stock is aging.** In 1995 only 47% of housing was 30 or more years old. That grew to 63% of housing stock in 2015. That trend supports home improvement spending. Research shows that homes that are 45 years old or older have 5.4% more repair and remodeling spend than homes that are 24 years old.

**In 2015 household formation jumped to almost 1.6 million households**, which may increase for the next several years. Housing turnover has returned to its normalized rate of 4% of units, both stats suggesting that demand for housing will grow.

**Interest rates could jump 200 basis points** and the housing affordability index would still be over 10.

**They have exceeded all their goals** and believe they can continue to grow their operating margin and return on invested capital.

**Their long term forecast calls for annual sales growth of 4.7% and comp sales growth of 4%.**

**They are on track to grow inventory turns** from an expected 4.8 times in 2015 to a target of 5.7 times in fiscal 2018.

**Tome referred to the company as a cash cow**, saying that in over the next three years they project they will generate in excess of \$32 billion in cumulative cash flow.

**Their Pro credit card is well accepted** and more than 70% of Pros who apply get it, but they only use 21.5% of their credit line. THD believes they need a financing tool for Pros. They tested 60-day terms and found that it gave them a good sales lift.

**Within their private-label credit card program** they have a profit-sharing arrangement that will offset the incremental cost associated with their new Pro credit program.

**They spend close to \$1 billion maintaining their aging store base every year.**

**Over the summer of 2015 they worked with a number of millennials** who spent a summer in their stores as well as with other retailers and then reported on what they discovered. The group was very interested in moving into traditional home ownership, just not immediately, and they see the big-box home improvement store as very relevant to their needs. They are not interested in technology for technology's sake, but rather what can enhance their in-store experience.

#### Other News:

**THD replaced their head of U.S. stores, Marc Powers, with one of his deputies, Ann-Marie Campbell,** effective February 1. Campbell, 50, has been with THD more than 30 years, starting as a cashier in South Florida, and was most recently president of the southern division. Powers took over the U.S. store division in 2014 after Marvin Ellison left THD to become CEO of J.C. Penney.

#### LOWE'S

**Orchard Supply plans to expand on the West Coast.**

They're planning nine new stores in 2016, including one or more in the San Francisco area. Bob Tellier, president of OSH, says they are expecting 33% new-store growth. The stores will follow a new format, which often includes a 25,000 to 28,000-square-foot store plus a 3,000-to 8,000-square-foot nursery. The stores reportedly fill a niche between big box stores and smaller mom-and-pop hardware stores. OSH has also remodeled all of its existing stores. Orchard Supply filed for Chapter 11 in 2013, which is when Lowe's acquired them. The San Francisco area is challenging, as real estate is very expensive and the labor market is highly competitive.

**Lowe's plans to hire 46,000 seasonal employees** during the spring and summer, home improvement's busiest season.

#### WALMART

**Walmart is closing 269 underperforming stores, 154 of which are in the U.S.** The rest are in Latin America. They

will close all 102 Walmart Express stores; the rest of the U.S. stores being closed are not performing up to expectations. Walmart says that 95% of the stores closing in the U.S. are within ten miles of another Walmart. Walmart also plans to open more than 300 stores globally. About 16,000 associates, including 10,000 in the U.S., will be affected by the closures. Walmart hopes to place many of them in nearby locations.

**They have four areas of focus:** strengthening Supercenters, optimizing Neighborhood Markets, growing the e-commerce business and expanding Pickup services for customers.

**Walmart plans to open 152 to 165 new stores in the U.S. this year,** including 50 to 60 Supercenters, 85 to 95 Neighborhood Markets, and seven to 10 new Sam's Clubs.

**Walmart will combine their corporate IT and e-commerce technology groups into a single unit** reporting to the chief of ecommerce, Neil Ashe. The new group will be called Walmart Technology, and will combine corporate IT in Bentonville with the ecommerce teams in Silicon Valley. A spokesperson said that combining the groups will allow the company to more quickly identify ways to build technology that combines physical and online shopping. No layoffs are planned because of the move.

**Most of Walmart's U.S. employees will be getting a raise February 20.** Walmart is also going to provide free, basic short-term disability to full-time hourly workers and will start allowing workers to accrue paid time off as they earn it. Walmart has been raising base employee wages since February 2014.

**Walmart is testing a leasing arrangement with Aarons,** a leader in sales and lease ownership specializing in furniture, consumer electronics, home appliances and accessories. The company offers what they describe as a virtual lease to own arrangement.

**Sam's Club started accepting Visa credit cards in February.** Later this year, Samsclub.com will begin offering Visa Checkout. Sam's is also accepting American Express, which was recently dropped by Costco.

## TARGET

**Target fired Tina Tyler, the chief stores officer and replaced her with Janna Potts**, a Target veteran who was most recently an HR executive. It was an abrupt end to the 50 year old Tyler's nearly 30-year career at Target. A Target spokeswoman said the move is related to CEO Brian Cornell's goal to transform the chain and regain Target's cachet. However, Potts has been with the company since 1989. Target also hired Michelle Wlazlo, Gap's former head of merchandising, as their senior vice president of apparel and accessories, and hired Erika De Salvatore as vice president of visual merchandising.

**Analysts believe that Target's improvement of their digital business is behind their recent sales success.** They started testing out what's called an "available-to-promise" functionality in fall 2015, which sped up shipping of digital orders and offered guests a more precise shipping window of two to three business days. Target also expanded their ship-from-store capability to more than 300 additional stores, which enabled about 40% of digital transactions in the fourth quarter to be shipped from stores. Target optimized their mobile website for the holidays with a feature that enabled customers to "like" products by tapping a little bear. That would save the product for future reference for the customer and gave Target insight into what the customer is interested in. Target also added in-store mode to their mobile app, which makes it easier for customers to find products by enabling in-store mapping. Target's most successful app is CartWheel, a digital savings app with more than 13 million active users.

## W.W. GRAINGER

**Sales of \$10 billion for 2015 were essentially flat compared to 2014.** Their full year revenue was in line with their reduced guidance.

**Zoro had \$296 million in sales in the U.S. in 2015**, an increase of 62% over the previous year.

**During 2015 Grainger restructured several of their businesses and reorganized the U.S. sales and marketing teams** to focus on accelerating market share gains for large and medium-sized customers.

**Sales for the 2015 fourth quarter were \$2.5 billion, down 1% from the fourth quarter in 2014.** Results for the fourth quarter included restructuring costs for the business in the U.S. The 1% sales decline for the fourth quarter included a 2% decline from unfavorable foreign exchange, a 1% decline from price, a 1% decline from lower sales of seasonal products and a 1% decline from sales of Ebola related safety products, partially offset by a 4% gain from the Cromwell acquisition. Sales in the U.S. , which accounted for 74% of company revenue for the fourth quarter, dropped 3%, driven by a 2% decline from volume, a 1% drop from lower sales of seasonal products and a 1% decline from sales of Ebola related safety products, partially offset by a 1% from higher intercompany sales to Zoro and 1% from the favorable timing of the Christmas holiday. Retail and government customers had the strongest sales performance for the quarter

**For 2016 Grainger expects growth to be somewhere between -1% and 7%.** Grainger will continue to adjust the U.S. brand network in 2016 and plans to close 55 branches this year as part of their restructuring.

## AMAZON

**Amazon's net sales increased 22% to \$35.7 billion in the fourth quarter.** Excluding the \$1.2 billion unfavorable impact from year-over-year changes in foreign exchange rates throughout the quarter, net sales increased 26% compared with fourth quarter 2014. **For the full year, net sales increased 20%** to \$107.0 billion. Excluding the \$5.2 billion unfavorable impact from year-over-year changes in foreign exchange rates throughout the year, net sales for the year increased 26% compared with 2014. Results were below analysts' expectations.

**Amazon reported that they added 3 million new Prime members in the third week of December** alone, three times as many as were added during the same week in 2013.

**Amazon reported that Christmas Eve was the busiest day for Prime Now.** Amazon also highlighted demand from last-minute shoppers, and pointed to a Prime Now order that was delivered at 11:59 p.m. Christmas Eve in San Antonio, Texas.

**Amazon registered with the Federal Maritime Commission to be a freight forwarder.** As a freight forwarder, Amazon will be known as Beijing Century Joyo Courier Service, which analysts say will give Amazon important advantages in Asia, including the ability to offer Chinese consumers guaranteed authentic products, as well as connect Chinese suppliers with global demand.

## MARKET TRENDS

### THE NEW AMERICAN HOME

The NAHB in collaboration with *Professional Builder* magazine unveiled **The New American Home** at the International Builders Show in Las Vegas. The home is 5,200 square feet and includes solar energy, tankless water heaters, hydronic air handlers, intelligent fireplaces, sustainable building materials and a weather-sensitive irrigation system that automatically adjusts usage according to the immediate climate. The home is LEED Platinum qualified and showcases many of the technology and living features today's home buyers are looking for.

### TRENDS FOR 55+ HOUSING

Dynamic Research reports that the **International Builders Show in Las Vegas featured emerging design trends for 55+ developments**, which are now being referred to as "age-qualified." Most people who move come from within five miles away; they are just looking for a new lifestyle. The laundry room is becoming the "domestic suite" with more storage, and often designed to provide secondary access to the master-bedroom walk-in closet. "Snoring Zones" are becoming quite common, giving a snorer somewhere to quietly retreat to. Homes are designed using separate wings built around common features, so guests or live-in help have their own space. Entry areas are larger, as this age group frequently entertains at home. Master bedrooms need to include room for a chair or bench so people can easily sit down to put on shoes, etc. Baths need to include zero-threshold showers. At least some electrical outlets are being located at waist level for easier access. Community needs include nearby services like grocery stores, walking trails and fitness rooms.

### CONSTRUCTION INDUSTRY TECH INVESTMENT

**More than 2 in 5 construction firms plan to increase spending on information technology this year**, according to AGC's 2016 Construction Industry Outlook. Nearly 3 in 5 plan to use mobile software this year. Accounting and estimating software ranked high among planned investments. The construction industry has been slow to adopt technology, but 83% of respondents told the AGC that mobile devices were their technology of choice for managing projects outside their traditional market area.

### THE FUTURE OF COMPUTING AND ARTIFICIAL INTELLIGENCE

**The next 30 years will be a time of rapid technological progress**, according to Bill Gates, who gave an in-depth interview to Reddit. He predicts that in the next ten years problems like vision and speech understanding and translation will greatly improve and mechanical robot tasks like picking fruit or moving a hospital patient will be solved. Once computers/robots are able to see and move things easily, they will be used very extensively. Gates highlighted a Microsoft project called "Personal Agent," which is being designed to help people manage their memory, attention and focus.

### INTELLIGENT MACHINES VS. HUMANS

**Super-intelligent machines could pose a real threat to humanity**, according to Microsoft CEO Bill Gates and theoretical physicist Stephen Hawking. Gates was asked how much of a threat super-intelligent machines pose to humans, a question that has also been posed recently to several prominent futurists. Gates said that we need to be very careful about artificial intelligence, because as machines become smarter, there could be serious problems for humanity if we do not manage artificial intelligence properly. When asked the same question, theoretical physicist Stephen Hawking said artificial intelligence "could spell the end of the human race."