MarketBriefing

2016 Issue 3 News from the month of February 2016

BOSCH
Invented for life

- Bosch
- Dremel
- Skil
- RotoZip
- Vermont American
- CST/berger
- David White
- freud
- Sia

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U.S. ECONOMY

EXCHANGE RATES FEBRUARY 29, 2016

Euro	1 Euro = $1.086	$1.00 = 0.919 Euros
Canadian Dollar	1 CAD = $0.739	$1.00 = 1.352 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 112.873 Yen
Chinese Yuan	1 Yuan = $0.153	$1.00 = 6.551 Yuan
Mexican Peso	1 Peso = $0.055	$1.00 = 18.134 Pesos

MARKET WATCH FEBRUARY 29, 2016

DOW	16,516	0.4%
NASDAQ	4,558	- 1.0%
S&P 500	1,932	- 0.2%

Stocks erased earlier gains and finished out the month of February with very lackluster results which left investors wondering if markets would ever improve or if we were in for another long and bumpy year. Good corporate earnings weren't enough to cancel out falling oil prices and a shaky outlook for the global economy. For the month the DOW gained 0.4% to finish at 16,516, the NASDAQ fell 1.0% to 4,558 and the S&P, the index most closely followed by economists, fell 0.2% to 1,932.

CONSUMER CONFIDENCE FALLS TO 92.2

The New-York based Conference Board's Consumer Confidence Index fell to 92.2 in February after rising to a downwardly revised 97.8 in January. The Present Situation Index fell to 112.1 from a slightly upwardly revised 116.6. The Expectations Index dropped to 78.9 from a downwardly revised 85.3 in January. The Conference Board said that the decline was primarily due to a less favorable assessment of current business conditions. Continued turmoil and volatility in the financial markets may also be eating into confidence. 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 0.5%

Consumer spending rose 0.5% in January and spending for December was revised from flat to an increase of 0.1%. Results beat economists' expectations. Excluding food and energy, core prices rose 0.3%, the largest increase since January 2012. The core PCE, the Fed's preferred measure of inflation, rose 0.3% in January after rising 1.5% in December and was up 1.7% in the 12 months through January, the largest 12-month increase since July 2014. 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 January after falling 0.1% in December. In the 12 months through January the CPI rose 1.4%, up from the 0.7% annual increase reported in December 2015. Core prices, which strip out volatile food and energy costs, rose 0.3% in January after rising 0.1% in December. In the 12 months through January core inflation was up 2.2%. During 2014 core inflation was flat. Falling energy prices and the strong dollar are primarily responsible for holding down inflation. Housing expenses, which account for one-third of the consumer price index, have gone up 3.2% from January 2015.

UNEMPLOYMENT STEADY, JOBS GROW

The unemployment rate remained at 4.9% in February and the economy added 242,000 new jobs, well ahead of economists' expectations. Jobs gains for December and January were also revised up to show an additional 29,000 new jobs were created than initially reported. Wages fell by 0.1%, surprising analysts who had expected wage gains to continue. Job growth has been particularly strong in service industries and hospitality, helping to make up for weakness in manufacturing, transportation and energy. Construction gained 19,000 jobs in February, The year-over-year unemployment rate for construction has dropped every month since 2010. 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 RISE 4.9%

Durable goods orders rose 4.9% in January, and the decline in December was 4.6%, less than previously reported. The increase was only the second in the past six months. Orders for non-defense capital goods excluding transportation, which serve as a proxy for business investment spending, rose 3.9% in January after dropping an upwardly revised 3.6% in December. The overall increase was led by a 52% jump in orders for commercial aircraft, a notoriously volatile category. Orders in all transportation categories rose 11.5%. Excluding transportation, durable goods orders were up a more moderate 1.8%, still the best showing since June 2014. The 4.9% overall increase was double what many private economists had been forecasting. It could be a sign of brighter prospects for manufacturing in 2016 after a rough 2015 in many sectors. U.S. companies have been hurt by a weak global economy, falling oil prices and a rising value for the dollar, which makes their goods less competitive on overseas markets. The durable goods report is often both volatile and subject to sharp revisions.

CHICAGO PMI FALLS TO 47.6

The Chicago PMI fell 8.0 points to 47.6 in February after jumping 12.7 points to 55.6 in January. The decline pushed the bellwether manufacturing index back below the level of 50 that indicates expansion. Four of the five components fell, with only Supplier Deliveries increasing for the month. The decline was led by an 18.5 point drop in Production, which more than reversed January's nearly 16 point gain and pushed the index back into contraction. New Orders also fell sharply and Order Backlogs fell further into contraction, a situation that has persisted for a full year. Employment declined significantly to the lowest level since November 2009. It was the fifth consecutive month Employment was below 50. Prices Paid contracted to the lowest level since July 2009 as oil and other commodity prices continued to fall. In a special question put to the PMI panel in February, 48% said lower oil prices were helping business, primarily because of lower freight and transportation costs. 26% of respondents said that lower oil prices were hurting business, and 26% said they had little or no impact. Chief Economist of MNI Indicators Philip Uglow says that while the past three months have been very volatile, he believes activity will pick up soon.

WHOLESALE PRICES RISE 0.1%

The Producer Price Index (PPI) rose 0.1% in January after falling 0.2% in December. The PPI was down 0.2% from January 2015. The increase was the first in the past eleven months. The core PPI, which excludes food, energy and trade services, rose 0.4% in January after rising 0.1% in December and was up 0.6% from January 2015. It was the biggest one-month jump in core inflation in 15 months. The PPI for inputs to construction fell 0.4% in January after falling 0.7% in December.

Q4 GDP GROWS 1.0%

GDP grew 1.0% in the fourth quarter, up from the 0.7% growth initially reported and better than expectations for a downward revision to 0.4% growth. The economy expanded at a 2.0% pace in the third quarter and grew 2.4% over all of 2015. Businesses accumulated $81.7 billion worth of inventory in the fourth quarter, up from the $68.6 billion reported earlier. Construction and retail trade were among the largest contributors to the upward revision. As a result, inventories subtracted only 0.14% from GDP growth; however, the bigger inventory build could be bad news for first quarter GDP growth as it means businesses may have little incentive to place new orders, which holds down production. Nevertheless, analysts predict that first quarter GDP is on track to rebound to 2.5% growth or higher, a very healthy rate of growth.

JOB OPENINGS JUMP

The Job Openings and Labor Turnover Survey, or JOLTS report, showed that job openings jumped from 5.3 million to 5.6 million in December, the highest level since July 2015. The number of Americans hired and the total quitting jobs both surged to nine-year highs in December. Through most of the jobs recovery, openings have outpaced hiring and quits. In December, however, the number of hires climbed from 5.3 million to 5.4 million, the highest number of hires since November 2006. The strong rise in hires shows that employer demand has strengthened. Hiring picked up in professional and business services; leisure and hospitality; and trade, transportation and utilities. Hiring slowed in construction, education, health services and manufacturing. Meanwhile, the number of people quitting jobs in December jumped from 2.9 million to 3.1 million, also the highest since December

2006. In December, there were just 1.4 unemployed workers for each job opening, down from a high of 6.7 in 2009. A 2-to-1 ratio is considered a healthy labor market. 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.

YELLEN SEES WARNING SIGNS

Federal Reserve Chair Janet Yellen sees several risks to the U.S. economy, including rising borrowing costs, stock market volatility and declining stock values and a dollar that continues to strengthen against other global currencies. Addressing Congress, Yellen acknowledged that if these developments persist, they could weigh on the outlook for the economy and the labor market in the U.S. The strong dollar hurts U.S. trade because it makes American products more expensive for foreign buyers. The slowdown in China's economy and the decline in the value of the yuan contributed to some of the recent market volatility. Yellen reiterated that the Fed expects to have gradual interest rate increases this year. Economists doubt that the Fed will raise rates at their next meeting in March. Japan's central bank recently introduced negative interest rates. China is propping up its currency and the European Central Bank could soon increase its stimulus program. Yellen does not think the Fed will cut rates, but emphasized the Fed's plans can change based on data.

FED STANCE CHANGING?

It would be "unwise" for the U.S. Federal Reserve to continue raising interest rates given declining inflation expectations and recent equity market volatility, St. Louis Fed President James Bullard said in a speech on monetary policy in late February. Bullard, who is a voting member of the Fed's rate-setting committee this year, argued for much of 2015 for an earlier hike, but said he now feels key assumptions supporting higher rates have been undermined.

HOUSING & CONSTRUCTION

HOUSING STARTS FALL 3.8%

Housing starts fell 3.8% in January to a seasonally adjusted annual rate of 1.099 million units after falling to 1.15 million units in December. **Single-family starts fell 3.9%** to a seasonally adjusted annual rate of 731,000 units after falling to 768,000 units in December. Multifamily starts fell 3.7% to 368,000 units after falling to 381,000 units in December. **Starts fell in all regions.** Starts dropped 0.4% in the West, 2.9% in the South, 3.7% in the Northeast and 12.8% in the Midwest. NAHB said that despite the modest dip in starts, they expect to see ongoing, gradual growth in housing production in 2016. Builders continue to be plagued by a shortage of lots and skilled labor. Wells Fargo expects starts to total 1.2 million units in 2016 and 1.25 million in 2017.

BUILDING PERMITS FALL 0.2%

Building permits fell 0.2% to a seasonally adjusted annual rate of 1.20 million after falling to 1.23 million in December. Single-family permits fell 1.6% to 720,000 units. Multifamily permits rose 2.1% to 482,000 units. **Regional permit issuance was mixed.** Permits rose 26.5% in the Midwest, 24.5% in the West and 0.3% in the South. Permits fell 55.4% in the Northeast. Permits have been above the one million level for nine consecutive months, the longest stretch in seven years.

NEW-HOME SALES FALL 9.2%

Sales of new single-family homes fell 9.2% in January to a seasonally adjusted annual rate of 494,000 units after jumping to 544,000 units in December. The inventory of new homes for sale rose to 238,000 in January, which is a 5.8-month supply at the current sales pace and the highest level of inventory since October 2009. The increase in inventory suggests that builders are adding inventory in anticipation of future business, according to the NAHB. **Regional sales were mixed.** Sales rose 3.4% in the Northeast and 1.8% in the South. Sales fell 5.9% in the Midwest and 32.1% in the West. 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 0.4%

Existing home sales inched up 0.4% in January to a seasonally adjusted annual rate of 5.47 million from a downwardly revised 5.45 million in December. Sales were 11% higher than January 2015, the largest year-over-year gain since July 2013. **Single-family home sales increased 1%** to a seasonally adjusted annual rate of 4.86 million from a downwardly revised 4.81 million in December. Sales were 11.2% higher than in January 2015. The median existing home price was $213,800, up 8.0% from January 2015. January's price increase was the 47th consecutive month of year-over-year gains in home prices. Total housing inventory at the end of January increased 3.4% to 1.82 million existing homes available for sale, and was 2.2% lower than in January 2015. Unsold inventory rose slightly to a 4-month supply from 3.9 months in December. The percent of first-time buyers remained at 32% in January, up from 28% in January 2015. All-cash sales, which are generally considered to be sales to investors, rose to 28% of sales in January from 24% of sales in December and were up from 27% of sales a year ago. Distressed sales rose slightly to 9% from 8% in December and were down from 11% in January 2015. **Regional sales were mixed,** rising 2.7% in the Northeast and 4% in the Midwest. Sales were unchanged in the South and fell 4.1% in the West.

BUILDER CONFIDENCE FALLS TO 58

Builder confidence fell three points to 58 in February from an upwardly revised January reading of 61. It was the twentieth consecutive month the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) remained above 50, and the first time in the past eight months the index has fallen below 60. The component measuring sales expectations for the next six months rose one point to 65, the component gauging current sales conditions fell three points to 65 and the component charting buyer traffic dropped five points to 39. Looking at the three-month moving averages for regional HMI scores, all four regions recorded slight declines. The Midwest fell one point to 57, the West dropped three points to 72, the Northeast dropped two points to 47 and the South fell two points to 59.

MORTGAGE RATES FALL TO 3.62%

Freddie Mac reported that the average interest rate on a 30-year fixed rate mortgage (FRM) fell to 3.62% at the end of February after falling to 3.79% at the end of January. At the end of February 2015 mortgage rates averaged 3.80%. Freddie Mac expects mortgage rates to rise to 4.7% by the end of the fourth quarter of 2016, although falling Treasury rates have trimmed 40 basis points from rate thus far this year.

POWER TOOL INDUSTRY

ROBERT BOSCH

CFO Stefan Asenkerschbaumer said that Robert Bosch GmbH expects to continue growing revenue in 2016 and expects to improve both financial results and operating profit. The group is prepared for stronger fluctuations in the markets.

STANLEY BLACK & DECKER

From Their Q4 Conference Call with Analysts:

Organic growth was up 6% for the year, with Tools & Storage leading the way with 8% organic growth. Foreign currency exchange subtracted 6% from the top line for the quarter which resulted in total revenue for the quarter being down 5%. The U.S. generated 1% organic growth for the quarter.

For the full year, organic growth was 6%, due to a 5% growth in volume and a 1% growth in price. Growth was offset by 7% negative foreign currency exchange, which resulted in a 1% decline in total revenue for the year. The U.S. recorded 8% organic growth for the full year.

Tools & Storage was the leading segment, and benefited from strong execution in all areas, new products and a strong supply chain performance. Continued strength in the U.S. construction, DIY and consumer markets helped results. Emerging markets and overall industrial conditions were challenging.

The hand tools and storage business was down 2% as strength within construction tools and Mac mobile distribution was offset by significantly lower sales in industrial channels.

Retail POS performance in North America was strong for the quarter, helping to wrap up a record year which saw positive POS in 50 out of 52 weeks, growth across every business unit and all major brands, including DeWalt, Black & Decker, Stanley and Bostitch.

They expect to see continued robust growth in tools during 2016. The innovation pipeline is stronger than at any time since the merger and supply chains are operating at very high levels.

Their full year results were $50 to $75 million lower than the guidance they issued going into the fourth quarter due to lower than expected fourth quarter volumes in Tools & Storage and Engineered Fastenings.

They are facing another significant foreign exchange headwind in 2016 that will pressure margins. They will only be able to offset about 50% of the impact with price and cost actions.

They expect 3% organic growth for 2016. They expect the U.S. construction market to be strong.

They have had a lot of broad-based incremental innovation taking place in hand tools and storage as well as more major innovations in lithium ion and DC brushless technologies.

Their biggest obstacle to organic growth is the industrial markets, which represent about 20% to 30% of their business. They expect these markets to be flat.

Today the two largest U.S. home centers represent about 20% of their business, down from about 40% several years ago.

The nonresidential construction market accounts for about $250 to $300 million of their revenue each year.

They expect modest positive price in 2016, and believe the way to protect price is to bring meaningful incremental breakthrough innovation to customers. As long as no one else has it, they believe they can charge whatever seems appropriate.

Between 18% and 19% of their earnings take place in the first quarter, but January is always a very slow month.

NEWELL RUBBERMAID

From their Q4 Conference Call with Analysts:

They expect their merger with Jarden to be completed in the second quarter and have already secured committed financing.

The combination with Jarden will create a $16 billion consumer goods company of leading brand that compete in large, growing and unconsolidated global markets. The combined portfolio is complementary, with more than 80% of revenue concentrated in just 30 brands.

They have committed to $500 million in annualized savings from the combination of the two companies, and believe that is conservative. Project Renewal delivered $350 million in annualized savings through the end of 2015 and they anticipate a range of $625 million to $675 million in cumulative savings, or possibly closer to $700 million by the end of 2017.

Core sales grew 6.2% in the fourth quarter, the strongest quarterly core sales growth in years. Excluding Venezuela, which they will no longer consolidate in their reports, core sales grew 4.4%.

Fourth quarter core sales growth was broad-based, with growth in all five segments. Combined, their Win Bigger businesses grew core sales 11.3%.

For the full year core sales increased 5.5%, 3.9% excluding Venezuela. The Win Bigger businesses grew core sales 9.4%. Acquisitions coupled with core sales growth offset the negative impact of currency and divestitures and resulted in 3.3% net sales growth.

The Tools & Storage segment saw net sales decline 8.6% in the fourth quarter, with core sales growth of 1.4%. Tools had modest growth in North America. For the full year, core sales for Tools & Storage grew 2.2%.

For the full year of 2016 they expect core sales growth of 4% to 5%. The performance of the tools business will impact where they fall within their guidance range, as will the impact of foreign currency. The tools segment had a challenging 2015 as the industrial products and services business slowed from high single-digit growth in 2014 to just slight growth in 2015. The contraction in growth was most pronounced in Brazil and China.

TRIMBLE NAVIGATION

Fourth quarter 2015 revenue of $559.7 million was down 1% compared to the fourth quarter of 2014. Engineering and Construction revenue was down 3% to $319.1 million. Foreign currency translation unfavorably impacted company revenue by approximately 3% compared to the fourth quarter of 2014.

Fiscal 2015 revenue fell 4% to $2.3 billion compared to fiscal 2014. Engineering and Construction revenue fell 5% to $1.3 billion. Foreign currency translation unfavorably impacted company revenue by approximately 4% compared to fiscal 2014.

For the first quarter of 2016 Trimble expects revenue to be between $565 million and $595 million. CEO Steven Berglund said that agriculture revenue was flat for the year, geospatial is continuing to recover from the oil price shock, building construction's growth forecast continues to be consistent and transportation and logistics is building momentum.

Trimble acquired New York and London-based Sefaira Ltd., a developer of cloud-based software for the design of sustainable buildings. Financial terms were not disclosed. The acquisition expands Trimble's design-build-operate portfolio to include tools for designing high-performance buildings early in the conceptual phase of the project. Sefaira's solutions enable users to estimate, compare and optimize the energy, water, carbon and financial benefits of relevant design strategies.

HEXAGON

Operating earnings for Hexagon rose to $198 million euros in the fourth quarter, up from $174 million euros in the fourth quarter of 2014. Results beat analysts' expectations.

MAKITA

Makita reported net income for the nine months ending December 31, 2015 of JPY32.9 billion, compared to JPY36.73 billion for the same period in 2014. For the full year ending March 31, 016, Makita expects net income of JPY40.7 billion.

APEX TOOL GROUP

James Roberts is the new CEO of Apex Tool Group. Roberts has been CEO of The Chamberlain Group for the past five years. Prior to that he held several senior positions at Newell-Rubbermaid, including leading the Irwin Tools & Hardware Segment. He was also president of Worldwide Hand Tools at Stanley Works, and spent 10 years at Black & Decker. Apex has 8,000 associates around the world. He's taking over for Thomas Wroe, who came out of retirement in 2013 to lead the company.

RETAIL

RETAIL SALES RISE 0.2%

Retail sales rose 0.2% in January and sales for December were revised up to show a 0.2% increase instead of the 0.1% decline initially reported. Retail sales excluding automobiles, gasoline, building materials and food services increased 0.6% last month after an unrevised 0.3% decline in December. These core retail sales correspond most closely with the consumer spending component of gross domestic product. The strongest sectors in January were non-store retail sales, which grew 1.6%. Building material sales rose for the fourth consecutive month, increasing 0.6% in January after a strong 1.4% increase in December. Gasoline sales plunged 3.1% for the month. Excluding the impact of cheap gas, retail sales rose 4.5% in January compared to January 2015. Steady hiring and job growth and increases in wages mean that Americans have more money to spend. Economists say the key question for the economy this year is whether consumer spending can keep growing and offset the impacts of stock market volatility and slowing growth overseas. Online and catalog sales rose 1.6% in January, the most in nearly a year, and were up 8.7% year-over-year. Analysts said it was a very strong report, and showed that the economy was on better footing than December's report suggested. Retail sales account for about one-third of all spending, with services making up the other two-thirds.

THE HOME DEPOT

Q4 sales rose 9.5% to $20.98 billion, beating analysts' expectations. **Q4 same-store sales rose 8.9% in the U.S.,** beating expectations of a 5.3% increase.

It was a record-breaking quarter during which Home Depot benefitted from an improving housing market, low interest rates, and growth in jobs, wages and credit, all of which result in consumers spending more money on home improvements. Warmer than average weather over the holidays also helped drive sales across a number of categories.

THD expects sales in 2016 to grow by 5.1% to 6%, and same-store sales to grow 3.7% to 4.5%.

From Their Q4 Conference Call with Analysts:

Fiscal 2015 sales of $88.5 billion were the highest in company history. Same-store sales were up 5.6% from 2014 and 7.1% in US stores.

The continuing strength in the U.S. dollar negatively impacted total company comps by $350 million or 1.8% and negatively impacted sales growth over the year by 1.6%.

They continue to see broad-based growth across the store and all geographies. All three of their U.S. divisions posted positive comps for the quarter, led by the southern division, which posted comps in the low double-digits.

Seasonal holiday décor, the gift center and Black Friday events were strong, with portable power and appliances showing double-digit growth. Core categories were also a strong contributor to performance. Appliances, tools and building materials posted double-digit comps for the quarter. They believe more favorable weather trends in the quarter added about $100 million to growth as customers were able to complete more outdoor projects.

Both ticket and transactions grew in the fourth quarter. Total comp transactions grew 5%, and they set a new transaction record for the year with more than 1.5 billion total transactions. For the fourth quarter comp ticket increased 2%.

Transactions for tickets under $50, about 20% of U.S. sales, were up 3.8% for the fourth quarter. **Transactions for tickets over $900, also about 20% of U.S. sales, were up 11.9%** for the quarter.

All merchandising departments posted positive comps and there was a healthy balance of growth between Pro and DIY categories, with Pro outperforming DIY in the U.S.

Online business grew for the quarter and the year. For the quarter, their online business grew by more than 25% to approximately $1 billion. For the year, online sales were $4.7 billion and accounted for approximately 5.3% of sales, up from 4.5% in 2014.

Blending the digital and physical worlds remains a common theme. More than 40% of online orders are picked up in stores. They have discovered that customers will choose whatever channel works best for their specific need – someone might buy mulch or concrete in store, but order something else online. And many people do their homework online and then come into the store to see the product in person and complete their transaction.

Currency headwinds could lower total comp growth this year, so they are forecasting a range of 3.7% to 4.5%.

100% of stores qualified for Success Sharing, their profit sharing program for hourly associates.

They will be introducing new Pro products from Milwaukee, DeWalt, Ryobi and Ridgid in the first quarter, some of which will be exclusive to The Home Depot.

Their Spring Black Friday event will once again offer amazing values. They are excited about exclusive grill offers and a large assortment of options they will be offering online.

During the fourth quarter they opened one new store in Mexico which brought their total store count to 2,274. At the end of the year, selling square footage was 237 million, up slightly from last year. Sales per square foot increased 5.2% to $371.

At the end of the year, inventory was up $730 million to $11.8 billion. On a currency neutral basis inventory dollars grew by $872 million. Inventory turns were 4.9 times, up from 4.7 times in 2014. Last year the West Coast port disruptions led to artificially lower inventory levels. They are very pleased with where their out of stock is compared to last year.

Their comp forecast for 2016 of total company comp growth of 4.5% is based on U.S. GDP growth estimates of 2.1% plus the continued recovery of the housing market. With the benefits of five new stores and a full year of sales from Interline Brands, they project total sales growth of 6%.

For the year, they had 20 basis points of expansion that came from the incredible productivity of their supply chain.

Digitally, they will be working to get products to their customers in two days or less and continually improving their search visualization – what someone sees when they do a search online.

They also have a big focus on mobile experiences, and will be rolling out their buy online, deliver from store functionality throughout the year.

Right now they have a record volume of quotes in their pipeline, which bodes well for business this year.

The top classes that still have not recovered from peak account for about $2.5 billion in key categories. They tend to be bigger ticket items like special order kitchens and countertops.

Project Sync is rolling out in more southern markets now; the complete rollout will be a multiyear process.

Other News:

THD will hire more than 80,000 associates nationwide for the busy spring season for their nearly 2,000 stores, merchandising execution teams and their 75 distribution facilities.

LOWE'S

Q4 sales rose 5.6% to $13.24 billion. Same-store sales rose 5.2% overall, and 5.5% in the U.S. Lowe's credited the improving housing market and unseasonably warm weather in the holiday quarter for the good results. Results beat analysts' expectations of a 3.6% increase in same-store sales.

For the full fiscal year, sales rose 5.1% to $59.1 billion, and same-store sales rose 4.8%. Lowe's noted that profits dropped because of their decision to exit an Australian joint venture with Woolworth in January.

At the end of the fiscal year Lowe's operated 1,857 stores in the U.S., Canada and Mexico with 202.1 million square feet of retail selling space.

From their Q4 Conference Call with Analysts:

Same-store sales grew 5.2% for the quarter, comp transactions increased 3.6% and comp average ticket grew 1.6%.

For 2015, comp average ticket increased 2.5% and comp transactions increased 2.2%. Big ticket comps, those over $500, grew 6.6%, although growth decelerated from the third quarter.

Their outlook for 2016 remains positive, and they expect sales to grow 6%, driven by a same-store sales increase of 4% and the opening of approximately 45 stores, including 20 Orchard Supply locations and 12 stores in Canada, primarily due to their acquisition of Target's leases. They expect capital expenditures to rise from $1.3 billion in 2015 to $1.4 billion this year.

They think that the home improvement business should continue to grow. Research shows that about half of homeowners now believe the value of their home has increased, up from just 25% in 2009. When people feel home values are increasing, they are more comfortable investing in their homes.

Their Black Friday events drove sales increases of 8% overall and 26% online. Over the holidays they tested new concepts like Deal of the Day and re-balanced year-end promotions to take advantage of an outdoor selling season that was extended by unusually warm weather.

They used the large space typically devoted to outdoor living to showcase holiday décor and provide a holiday experience for customers which resulted in very strong sales. This space is now transitioning back to outdoor living for the spring selling season.

During the quarter they saw above-average comps in lumber and building materials, appliances, lawn and garden and paint.

Favorable weather helped drive strength in the Pro business in the fourth quarter as well as all the programs they've put in place for Pros. One of the initiatives they are focused on is strengthening the channel-exclusive brands they can offer Pros.

They see significant long-term potential in Canada, and expect their acquisition of Canadian home improvement chain Rona to significantly strengthen their Canadian operations and allow them to leverage shared supplier relationships and benefit from economies of scale.

They are focused on evolving from a multichannel company to an omnichannel company that offers customers a seamless shopping and service experience.

They have enhanced their website with improved product search, integrated and upgraded product videos, 360 product presentations and simplified groupings designed to make it easier for people to shop.

They're expanding their in-home interior specialists program, which will be available in all their stores by the end of 2016. Their goal is to become the project authority in home improvement.

They continued to expand their Pro business, which produced comps above the company average. Over the year they strengthened their portfolio of pro-focused brands and leveraged long-standing partnerships with Bosch, Hitachi, Stanley Bostitch and Paslode.

Inventory at the end of the year was $9.5 billion, up 6.1% from last year. About 2.2% of that growth was driven by the timing of Chinese New Year, the rest was due to increases necessary to support sales growth. Inventory turnover rose 7 basis points to 3.92.

They currently have more than 160 Pro Services account executives in the field and are very pleased with the program's results. Excluding new specialists added in 2015, the program produced double-digit growth in sales.

They are increasing their use of targeted digital media, expanding their social media presence and reducing print advertising.

They're continuing to consolidate the procurement of similar types of goods and services across their corporate and store functions.

Lumber and copper deflation impacted Q4 by 35 basis points and they expect a similar impact in the first quarter, but they think the effects will dissipate throughout the remainder of the year.

Other News:

Lowe's is acquiring Quebec-based Canadian home improvement chain Rona for $2.3 billion, in what the media refers to as a friendly takeover. Lowe's made an unsolicited $1.8 billion CAD offer for Rona in 2012 that was rejected. The Canadian press says that Lowe's and Rona face a common problem in Canada: Home Depot. By acquiring Rona, Lowe's will greatly level the Canadian playing field. The merged company will be virtually tied with Home Depot for the top home improvement chain in Canada, with $5.6 billion CAD in annual revenue, according to estimates from industry publication *Hardlines*.

Rona currently has 236 corporate locations and 260 dealer-owned stores and Lowe's has 42 big-box locations in Canada, a number that will grow to about 70 stores during the next three years due to the acquisition of former Target locations and planned new stores.

Lowe's says they see more than $1 billion CAD in opportunities to increase revenue and operating profit in Canada with the potential to double operating profit over the next five years by leveraging existing supplier relationships and scale and adding appliances and Lowe's private label products to Rona stores.

Acquiring Rona will give Lowe's the scale they have sought in Canada and will give them a big foothold in Quebec, which accounts for 25% of the Canadian home improvement market. Lowe's does not currently have any stores in Quebec.

Rona also has a vast network of small stores in neighborhood and rural markets. Lowe's is not only buying the small format stores that Rona owns, but is also buying the capability to manage small format stores. Rona is expected to keep operating under the Rona name.

Management and boards of both companies have approved the planned transaction, which is subject to approval from Investment Canada and the Competition Bureau. The Canadian economy has softened since the last takeover attempt in 2012 and the Canadian dollar has plummeted.

WALMART

Q4 revenues fell 1.4% to $129.7 billion, below analysts' expectations. Excluding the impact of currency exchange, revenue rose 2.2%. **Q4 same-store sales in the U.S. grew 0.6%,** the sixth straight quarterly increase, although it was below analysts' expectations. Traffic rose 0.7%, the fifth consecutive quarter in which customer traffic increased.

Walmart cut their sales outlook for the year due to stronger impacts from currency and store-closure plans than anticipated. Walmart now expects sales growth to be relatively flat this year, down considerably from earlier estimates of 3% to 4% growth. WM expects foreign exchange fluctuations to negatively impact sales by about $12 billion.

Walmart is spending more than $5 billion to improve stores and increase ecommerce sales in the face of stiff competition from Amazon, the grocery industry and dollar stores. Walmart says customer satisfaction scores are increasing, inventory growth is leveling off and they are reducing shipping costs.

Walmart's ecommerce sales rose 12% in fiscal 2016 after jumping 24% in 2015. Ecommerce sales rose 8% in the fourth quarter, the fourth consecutive quarter of decelerating growth excluding the impact of currency swings. Walmart blamed the deceleration on weak economies and strong competition overseas.

Walmart is reportedly testing a new design for supercenters in Cibolo, Texas, where they recently opened a 182,000-square-foot store. The new store has an expanded produce, dairy, bakery, deli and grocery at one door, and an online-order pickup and service counter on the other side of the store with its own entrance, as well as separate entrances for both garden and the auto service center. There is also an electronics lounge area. There are reportedly many other infrastructure and design adjustments Walmart is incorporating in order to make it easier for customers to navigate the store. Shelves have been lowered, there is better visibility through refrigerated doors and cases, there are electronic menus and signs, and a big map at the front of the store.

Walmart will take over the operation of their gas stations, something that's been handled by Murphy USA until now. Murphy will continue to run the more than 1,000 locations they've already built near Walmart stores. Walmart plans to add their own gas stations to as many of their new stores as possible. Walmart primarily sees selling gasoline as a way to attract more shoppers to stores so they will buy other, higher margin items. Walmart and Murphy are both headquartered in Arkansas, and have been partners since 1996.

TARGET

Q4 revenues slipped 0.6% to $21.63 billion; Target blamed the decline on their divestiture of their pharmacy and clinic businesses. Q4 same-store sales rose 1.9%, the slowest pace in a year but slightly better than analysts' expectations.

Online sales rose 34% in the fourth quarter and 30% in the third quarter. Target offered free shipping on all online sales over the holidays. Online sales accounted for 5% of fourth quarter sales, the highest share in 17 years of online sales.

Items that were out of stock in online distribution centers accounted for approximately 40% of the online orders that were picked up in stores.

Target's supply chain chief Keri Jones left the retailer, another executive departing in Brian Cornell's two-year house-cleaning spree. Jones was one of three executives directly below Target's chief merchant, a position that has been vacant since Kathee Tesija left Target last year. Now, two of the EVPS are gone as well. Target says responsibilities will be taken over by others.

Target's chief human resources officer, Jodie Koziak, left the retailer to become global senior vice president of human resources for Alibaba. She'll be replaced by Stephanie Lundquist, a Target veteran of fifteen years.

SEARS

Craftsman Tools is going to sponsor the World of Outlaws series in order to once again become a major presence in the motorsports world. Terms of the three-year deal were not disclosed, but two of North America's major dirt track racing series are immediately being renamed "World of Outlaws Craftsman Sprint Car Series" and "World of Outlaws Craftsman Late Model Series." It is the first time the two top series in grassroots motorsports have shared a title sponsor. Craftsman says the new marketing arrangement is all about cars and the tools that are an essential part of maintaining vehicles. Craftsman will now have a presence at some 140 racing events across the U.S. and Canada. Craftsman sponsored NASCAR from 1995 to 2009.

W.W. GRAINGER

Sales increased 4% in January compared to January of 2015. Growth included a 4% contribution from Cromwell Group, acquired September 1, 2015, and a 2% reduction from foreign exchange. Excluding acquisitions and foreign exchange, organic daily sales grew 2% driven by a 3% increase in volume and a 2% increase from holiday timing, partially offset by a 2% decline in price and a 1% decline from sales of Ebola related safety products in 2015. Sales were up 1% in the U.S. Sales in Canada were down 9% in local currency and 23% in U.S. dollars.

AMAZON

Amazon is raising the minimum purchase requirement for free shipping 40% to $49 for non-Prime members. In October 2013, Amazon boosted the threshold to $35 after requiring a $25 minimum purchase for at least a decade. Analysts say the move highlights how much Amazon covets Prime members, customers who pay $99 a year in exchange for unlimited two-day shipping on many items, as well as a streaming movie and music service. By some estimates, Prime customers spend about double what non-members do over the course of a year. The Prime fee alone could account for between $4 billion and nearly $6 billion in revenue annually, according to estimates in the range of 40 million to 60 million members. And because they are very loyal, Prime members are even more important, because Amazon has to spend less to market to and retain them. Amazon is also trying to contain shipping costs that have ballooned in recent years. Shipping expenses jumped 37% to $4.17 billion in last year's fourth quarter. As a percentage of sales, shipping costs rose to 12.5% in last year's fourth quarter from 10.9% a year earlier. The company lowered the free-shipping threshold for some book orders to $25, though it isn't clear which books qualify.

Amazon is reportedly expanding their on-demand driver deliveries, according to Reuters. Amazon is quietly recruiting drivers in an attempt to control more of their own deliveries. Amazon outlined the plan to contractors who transport packages for Amazon Flex, a program which allows local drivers to pick up packages at small warehouses and deliver them to customers. Analysts say the plan could help Amazon control shipping costs, which grew more than 18% to $11.5 billion last year.

Amazon is acquiring Emvantage, an Indian provider of online/mobile payment services, for an undisclosed sum. Amazon plans to use Emvantage to deliver payment solutions for the Indian e-commerce market.

Amazon is acquiring NICE Software, an Italian provider of software for managing/accessing high-performance computing (HPC) server grids and remotely accessing 2D/3D graphics apps hosted on cloud servers. Terms were not disclosed. Amazon plans to continue supporting NICE's existing products, and to work with the company to create even better tools. Last year, AWS launched new instances (called C4) for its EC2 cloud computing service that are optimized for performance-intensive workloads.

MARKET TRENDS

MULTIFAMILY HOUSING TRENDS UP

Last year, 188,000 apartment units opened up across the country, and experts expect more will be built this year. That could increase the vacancy rate and curb the big increases in rents that are currently taking place. Even with all the recent new construction, developers have not kept up with the growing demand for apartments. Last year, the total number of households grew by 1.5 million, but the nation's housing stock only increased by 1.1 million units. So far, experts don't see any evidence that the U.S. is becoming more like Europe, where young people often continue to share housing with their extended family for much longer periods than stateside. A rising homeownership rate could reduce strong demand for apartments, if fewer of the newly formed households live in apartments than experts predict. However, new data shows that if the homeownership rate does rise, the new homeowners will primarily be current renters of single-family homes. About 68% of renters say they are satisfied with their housing, according to the latest quarterly renter satisfaction survey from Freddie Mac. Bad news in the stock market could hurt demand for apartments, especially for the upscale new units developers have been delivering in urban cores. So far, a mix of young Millennials and older empty nesters helped fill these more expensive apartments. Young Millennials often need a little help from their parents to afford these units. Falling stock prices might hurt the ability of their parents to help pay the rent, as well as empty nesters' ability to move out of their large suburban houses and into cities.

LABOR MARKET IMPACTING GROWTH

Labor shortages took 75,000 to 150,000 homes out of the market, as builders were not able to build fast enough to meet demand, according to Ed Sullivan, chief economist at the Portland Cement Association. He believes that Millennials are creating another headwind for housing. Sullivan sees Millennials delaying their home purchases by five to six years instead of choosing not to purchase at all.

$1B CITY COULD TEST INTERNET OF THINGS

Pegasus Global Holdings is reportedly spending $1 billion to develop a medium-size city in rural New Mexico that would provide a safe space for companies looking to test Internet of Things technology before introducing it. The urban site would have no residents but would have streets, big-box stores, homes and more, and while large enough for about 35,000 people, the city would have no actual human population. According to the developers, that would allow companies with potentially dangerous technologies to test their prototypes in an actual urban environment without worrying about inflicting injury or death on innocent bystanders. This would be ideal for researching connected car technology. The proposed 15-square-mile city is intended to look pretty unremarkable. A recent *Conde Nast Traveler* article says the city will have "fiber networks laid over old copper, split-level suburban homes straight out of the 1960s, big box stores on the outskirts from the 1980s," making the testing process as realistic as possible. One test might involve fleets of small drones dropping packages on doorsteps. The project has attracted some doubt from the scientific community. Steve Raynor, co-director of the Oxford Programme for the Future of Cities, is quoted in the *Fortune* article as warning that "the idea of 'testing' complex socio-technical systems without the people is bound to yield misleading results because real people frequently interact with materials and devices in ways that are not anticipated by the designer." The project has been plagued by funding issues, but now appears to be back on track. Developers say the city will be open to anyone wanting to test Internet of Things technologies.