MarketBriefing

2016 Issue 6 News from the month of May 2016

BOSCH
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U.S. ECONOMY

EXCHANGE RATES MAY 31, 2016

Euro	1 Euro = $1.117	$1.00 = 0.895 Euros
Canadian Dollar	1 CAD = $0.767	$1.00 = 1.303 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 111.044 Yen
Chinese Yuan	1 Yuan = $0.152	$1.00 = 6.576 Yuan
Mexican Peso	1 Peso = $0.054	$1.00 = 18.390 Pesos

MARKET WATCH MAY 31, 2016

DOW	17,787	0.1%
NASDAQ	4,948	3.6%
S&P 500	2,097	1.5%

Markets struggled to find direction during the month of May, but closed modestly higher. The DOW gained 0.1% to close at 17,787, the NASDAQ rose 3.6% to 4,948 and the S&P, the index most closely followed by economists, rose 1.5% to close at 2,097.

CONSUMER CONFIDENCE DROPS TO 92.6

The New-York based Conference Board's Consumer Confidence Index fell to 92.6 in May after dropping to a slightly upwardly revised 94.7 in April. The Present Situation Index dropped to 112.9 from an upwardly revised 117.1 in April. The Expectations Index fell to 79.0 after dropping to an upwardly revised 79.7 in April. The Conference Board said that the decline was due to consumers' less optimistic view of current conditions. Economists say a level of 90 indicates that the economy is on solid footing and a level of 100 or more indicates growth. Analysts caution that the real driver behind consumer spending is income growth and that labor market trends are a more accurate predictor of consumer behavior.

CONSUMER SPENDING RISES 1.0%

Consumer spending rose 1.0% in April after being flat in March. It was the biggest increase in more than six years. Incomes rose a solid 0.4% after rising by the same amount in March. Adjusted for inflation, consumer spending rose a solid 0.6%. The personal savings rate fell to 5.4% from 5.9% in March, and was the lowest level of the year. Core PCE (personal consumption expenditures) prices, the Federal Reserve's preferred inflation measure, rose 0.3% in April after rising 0.1% in March, and were up 1.1% year-over-year, still below the Fed's target of 2%. Consumer spending is closely watched by economists because it accounts for 70% of U.S. economic activity.

CONSUMER PRICES RISE 0.4%

The Consumer Price Index (CPI) rose 0.4% in April after rising 0.1% in March. It was the fastest pace in more than three years. In the 12 months through March the CPI increased 2.1%. The increase was primarily due to an 8.1% increase in the price of gasoline. Core prices, which strip out volatile food and energy costs, rose 0.2% in April after rising 0.1% in March. In the 12 months through April core inflation was up 2.1%, the fifth consecutive month of growth of 2.0% or more. Oil prices have moved higher in recent months, and the dollar has weakened against global currencies, allowing inflation to move into a range that the Fed considers acceptable.

UNEMPLOYMENT FALLS TO 4.7%

The unemployment rate dropped to 4.7% in May from 5.0% in April but the economy added just 38,000 jobs, far below expectations of 158,000 new jobs. In addition, April's job gains were reduced to 123,000 from 160,000 and March gains were trimmed to 186,000 from the 208,000 new jobs originally reported. Employment in construction and retail was little changed. Analysts noted that the strike at Verizon affected employment numbers overall. In May, average hourly earnings for all employees on private nonfarm payrolls increased by 5 cents to $25.59, following an increase of 9 cents in April. Over the year, average hourly earnings have risen by 2.5%. The report raised fresh concerns about the stability of the economic recovery. It was the lowest level of jobs created since 2011. Average hourly wages rose 0.2%.

DURABLE GOODS ORDERS RISE 3.4%

New orders for durable goods rose 3.4% in April, and gains for March were revised from 0.8% to 1.9%. The big jump in orders was primarily attributable to a 64.9%

leap in aircraft orders, a notoriously volatile category. Orders for non-defense capital goods excluding aircraft, a category that serves as a proxy for business investment spending, fell 0.8% after being unchanged in March. Shipments of core capital goods, which factor into GDP calculations for business spending, increased 0.3% in April after rising 0.3% in March. The durable goods report is often both volatile and subject to sharp revisions. Oxford Economics expects that the headwinds that are constraining growth, including the strong dollar, weak foreign demand, bloated inventories and low oil prices, will remain for much of the year and limit real GDP growth this year.

CHICAGO PMI FALLS TO 49.3

The Chicago PMI fell 1.1 points to 49.3 in May after falling to 50.4 in April. It was the lowest level since February and the sixth time the PMI has been in contraction over the past 12 months. The decline was led by a big drop in Production, which fell below 50, as well as a drop in New Orders. Inventories fell by more than ten points to the lowest level since November 2009. It was the seventh consecutive month Inventories have been in contraction, which could signify some uncertainty about future business growth. A special question posed to the panel showed that 68.7% of respondents did not plan to increase business investment over the next six months.

WHOLESALE PRICES RISE 0.2%

The Producer Price Index (PPI) rose 0.2% in April after falling 0.1% in March and was unchanged from April 2015. The core PPI, which excludes food, energy and trade services, rose 0.9% after falling 0.1% in March and was up 0.9% from April 2015. Economists had expected a 0.3% increase. Producer prices for personal consumption, a proxy for consumer inflation, rose 0.2% in April and were up 0.2% year-over-year. The PPI for inputs to construction rose 0.3% in April after rising by the same amount in March but was down 1.7% from April 2015.

Q1 GDP REVISED UP TO 0.8%

GDP grew an upwardly revised 0.8% in the first quarter, up from the 0.5% growth first reported, but still below economists' expectations. GDP grew 1.4% in the fourth quarter. Compared with the first report, the latest figures showed a larger gain for residential investment and a smaller drag on overall growth from private inventories and foreign trade. The second report also offered the first official estimate of U.S. corporate profits during the first quarter, which rose 1.9%. Consumer spending, which accounts for about 70% of economic activity, grew 1.9% in the first quarter, unchanged from the initial estimate, which was the weakest showing in a year. Outlays on new home construction jumped 17.1%, up from the prior estimate of 14.8% and the biggest gain in nearly four years. The value of inventories rose from the $60.9 billion first reported to $69.6 billion. Business investment in all other categories declined. Inflation was unchanged, with the PCE (personal consumption expenditures) index rising at a 0.3% annual pace. Most other categories were little changed. However, since the recovery began nearly seven years ago, GDP has been weak in the first quarter of each year, averaging 0.8%, and has then rebounded in the spring, with second quarter growth averaging 3.1%. Economists are expecting a similar pattern this year, forecasting second quarter growth of between 2.3% and 2.8%.

JOB OPENINGS RISE

Job openings increased by 149,000 to 5.75 million in March, according to the latest Job Openings and Labor Turnover Survey, or JOLTS report. The gain lifted the jobs openings rate to 3.9% and upward revisions to prior data showed that openings rose in February compared to the initially reported decline. Hires edged down to 5.29 million in March. The renewed gap between openings and hires could indicate a tightening labor market, with job vacancies harder to fill. Total separations fell to 5.05 million in March, Quits rose slightly and layoffs continued to fall. Quits are typically voluntary separations, and an increase in quits generally indicates that people are more confident about their ability to find another job. The JOLTS report is one of Fed Chair Janet Yellen's preferred economic indicators.

FED FORECASTS SECOND QUARTER GROWTH

The Atlanta Fed reported that its GDPNow model forecast for real GDP growth in the second quarter jumped to 2.8% in mid-May from the previous forecast of 1.7% growth. They also increased the forecast for consumer spending for the second quarter from 2.6% to 3.0% and increased the projection for fixed investment growth from 0.4% to 2.2%. The government won't release its actual estimate of second quarter growth until the end of July.

YELLEN INDICATES RATE HIKE LIKELY

Fed Chair Janet Yellen confirmed that the Fed will most likely raise interest rates in the coming months if the economy continues to improve as expected. She did not commit to whether the first rate hike since the Fed raised rates a quarter-point last December would come in June or July but said that the economy is picking up after a weak first quarter. Fed policymakers have indicated that they expect to raise rates twice this year. Wells Fargo expects that the first increase will come in the third quarter.

HOUSING & CONSTRUCTION

HOUSING STARTS RISE 6.6%

Housing starts rose 6.6% in April to a seasonally adjusted annual rate of 1.17 million units after falling to 1.089 million units in March. **Single-family starts rose 3.3%** to 778,000 units after falling to 764,000 units in April. Multifamily starts increased 13.9% to 394,000 units after dropping to 312,000 in March. **Regional starts were mixed.** Starts rose 22.2% in the Midwest and 14.1% in the South. Starts fell 7.6% in the Northeast and 10.0% in the West. Builders continue to be plagued by a shortage of lots and skilled labor. Wells Fargo expects starts to gain momentum throughout the year, ending 2016 up 11% to 1.2 million units and reaching 1.25 million units in 2017.

BUILDING PERMITS RISE 3.6%

Building permits rose 3.6% in April to a seasonally adjusted annual level of 1.12 million after falling to 1.09 million in March. **Single-family permits increased 1.5% to** 736,000 units. Multifamily permits rose 8% to 380,000 units. **Permits rose in all regions,** increasing 3% in the Northeast, 3.3% in the Midwest, 3.3% in the South and 4.7% in the West. Permits have been above the one million level for twelve consecutive months, the longest stretch in seven years.

NEW-HOME SALES RISE 16.6%

Sales of new single-family homes rose 16.6% in April to a seasonally adjusted annual rate of 619,000 units after falling to an upwardly revised reading in March. The inventory of new homes for sale fell to 243,000 homes in April, a 4.7-month supply at the current sales pace, down from a 5.8-month supply in March. In a normalized market, housing is generally at a six-month supply. **Regional sales were mixed.** Sales rose by 52.8% in the Northeast, 18.8% in the West and 15.8% in the South. Sales fell by 4.8% in the Midwest. NAHB Chief Economist Robert Dietz said that rising home sales combined with tight inventory will translate into increased housing production as the year progresses. 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 contract close.

EXISTING HOME SALES RISE 1.7%

Existing home sales rose 1.7% in April to a seasonally adjusted annual rate of 5.45 million after rising to 5.33 million in March. Sales were 6% higher than in April 2015. **Single-family home sales rose 0.6%** to a seasonally adjusted annual rate of 4.81 million in April from 4.78 million in March, and were 6.2% higher than a year ago. The increase was primarily driven by a big jump in the Midwest, where homes are most affordable. Total housing inventory at the end of April rose 9.2% to 2.14 million existing homes for sale. Inventory was 3.6% lower than a year ago, and was a 4.7-month supply at the current sales pace, up from a 4.5-month supply in March. **Regional sales were mixed.** Sales rose 2.8% in the Northeast and 12.1% in the Midwest. Sales dropped 2.7% in the South and 1.7% in the West.

BUILDER CONFIDENCE STEADY

Builder confidence was unchanged in April after holding steady at 58 in March. It was the fourteenth consecutive month the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) remained above 50. The component measuring sales expectations for the next six months rose one point to 62, down from a high of 75 reached in October 2015. The component gauging current sales conditions fell two points to 63 and the component charting buyer traffic increased one point to 44. Looking at the three-month moving averages for regional HMI scores, all four regions suffered slight declines, with the Northeast falling two points to 44, the West falling two points to 67, the Midwest dropping one point to 57 and the South falling one point to 58.

MORTGAGE RATES FALL SLIGHTLY

Freddie Mac reported that the average interest rate on a 30-year fixed rate mortgage (FRM) fell slightly to 3.64% at the end of May after falling to 3.66% at the end of April. At the end of May 2015 mortgage rates averaged 3.87%. Freddie Mac expects mortgage rates to rise to 4.7% by the end of the fourth quarter of 2016.

POWER TOOL INDUSTRY

ROBERT BOSCH

Robert Bosch expects sales to increase between 3% and 5% this year after the full acquisition of two joint ventures led the company to record-high sales in 2015. Bosch expects the growth to come from a combination of innovative products and innovative services. In North America, the Bosch Group employs some 31,000 associates, and in business year 2015 generated consolidated sales of $14 billion.

Bosch intends to provide service solutions for every aspect of connecting products on the Internet of Things (ioT) from personal vehicles to entire cities. In the world of connected industry, also known as Industry 4.0, Bosch benefits from the practical experience gained from applying smart technology in 250 of their own plants.

In 2016, about 50 Bosch applications will be running on Bosch's proprietary IoT cloud. Half of Bosch's products are already Internet capable. In the future they will sell not only products but services for them. The networking of Bosch's own plants will generate cost savings of 1 billion euros and additional sales of about the same.

Bosch has invested more than 400 million euros in startups.

STANLEY BLACK & DECKER

From the Electrical Products Group Conference, where SB&D was represented by CEO John Lundgren:

Global Tools & Storage, Power Tools & Accessories and Hand Tools & Storage account for about two-thirds of their revenue. Geographically, the U.S. accounts for a little more than half of their revenue; that percentage has grown with the strong U.S. dollar.

Security is a good business to be in during recessionary times; about 18% of their revenue comes from Security. Security is a countercyclical business that is helped by commercial construction.

They've made 100 acquisitions in the past 15 years.

They are doing about $500 million in online business, primarily through Amazon, but also through some of their big customers such as Home Depot and Lowe's, which together now account for 5% to 6% of SB&D's online revenue.

The dedicated teams in Global Tools & Storage and other divisions are tasked with coming up with breakthrough innovations that will contribute at least $100 million in revenue. There is plenty of room for mergers and acquisitions in Global Tools & Storage. They look at how their business model might be disrupted, and how they can beat someone else at that game.

They do upwards of $1 billion in business with their two largest retail partners (Home Depot and Lowe's) and the growth of their online business is something that they believe they have to balance very carefully and make sure their retailers know they won't allow them to be disadvantaged in ecommerce. Lundgren went on to note that neither retailers nor manufacturers own the end user.

They have an objective of producing at least 50% of what they sell in a country in the country itself.

Other News:

SB&D told the media that they have a pipeline full of potential targets for merger or acquisition and are back at work after a self-imposed two-year hiatus. CEO John Lundgren said that he sees potential for dealmaking in the Tools and Storage business. Despite SB&D's number one market share in the tool industry, the company has only a 17% global market share, with ample room to consolidate globally. Industrials are also another area of emphasis.

SB&D is partnering with the STEMIE Coalition. STEMIE hosted the National Invention Convention and Entrepreneurship Expo (NICEE) at the U.S. Patent office in Virginia. It was the first national competition for students to display their problem solving and critical thinking skills through products that they have invented or companies they have launched. The inaugural event hosted 265 K-12 students from all over the country. Products ranged from a Braille keyboard that clips onto an iPad to a device that senses a dog's stress levels and treats the stress with aromatherapy and music. SB&D says they are looking forward to the NICEE growing, and thinks it will increase the dedication to STEM education nationally.

NEWELL BRANDS

Newell Brands is moving their corporate headquarters from Atlanta, Georgia to Hoboken, New Jersey. The State of New Jersey offered NB $27 million in tax incentives to make the move.

Newell Brands is moving global creative work for some of their most visible brands from BBH New York to J. Walter Thompson New York, according to *Adweek*. Among the brands moving are Irwin and Lenox. NB already moved global PR responsibilities from BBH to WPP's Cohn & Wolfe unit. In 2015 Newell Rubbermaid spent $91.6 million on measured media; when BBH first won the business, Newell Rubbermaid spent about $265 million worldwide.

Newell Brands hired Tiffany's CFO Ralph Nicoletti to replace current CFO John Stipancich, who is leaving the company.

TTI/TECHTRONIC INDUSTRIES

Sales for fiscal 2015 rose 6% to a record U.S. $5.0 billion. Sales adjusted for foreign currency grew 10.5%. Power Equipment sales grew 11.8% to U.S. $4.0 billion, accounting for 78.8% of total sales. The Milwaukee business grew 23.7% adjusted for foreign currency.

TRIMBLE

Trimble is partnering with the University of Cambridge to collaborate on research to advance technology development in the engineering and construction industry. Trimble will work closely with the Laing O'Rourke Centre's Construction Information Technology Laboratory (CIT). CIT is a state of the art facility with a mission to solve complex engineering problems and automate difficult construction tasks by developing decision support tools. The overall goals is to develop accessible and intuitive technologies that can drive increased collaboration for the Design-Build-Operate (DBO) lifecycle of buildings and infrastructure. The construction sector is rapidly transforming as a result of the revolution in digital engineering.

HEXAGON METROLOGY

Hexagon's sales increased 2% in the first quarter compared to last year, below the 3.8% increase expected by analysts. The company expects sales to improve further over the remainder of the year.

RETAIL

RETAIL SALES JUMP 1.3%

Retail sales jumped 1.3% in April after falling 0.3% in March. Big gains by auto dealers, gas stations and internet retailers led the way, but every segment of the retail industry saw sales gains except for home centers, where sales fell 1.8%, due at least in part to unusually damp and rainy weather. Results exceeded economists' expectations of a 0.8% increase. Online sales increased 2.1%, the largest gain for the category in nearly two years. Core retail sales, which exclude automobiles, gasoline, building materials and food services, shot up 0.9% in April after an upwardly revised 0.2% gain in March. These core retail sales correspond most closely with the consumer spending component of gross domestic product. Retail sales account for about one-third of all spending, with services making up the other two-thirds.

THE HOME DEPOT

Q1 sales rose 9% to $22.8 billion. Comp sales were up 6.5% from Q1 2015, and were up 7.4% for U.S. stores. They raised their sales growth guidance for the year to 6.3% with comp sales growth of 4.9%.

From their Q1 Conference Call with Analysts:

All three divisions posted positive comps, led by the southern division. All 19 U.S. regions and top 40 markets saw single to low double-digit comps for the quarter. Weather positively impacted sales by about $250 million, but spring had not yet arrived by the end of the quarter in many markets.

Total comp transactions grew 4% for the quarter, and comp average ticket increased 2.5%, somewhat impacted by commodity price deflation from lumber and copper.

Transactions for tickets under $50, which represent about 20% of U.S. sales, were up 2.7%.

Transactions for tickets over $900, about 20% of sales, were up 9.5%. The drivers behind the increase in big ticket purchases were appliances, roofing, sheds and windows. Tools outperformed the company's average comp.

Pro heavy categories continued to show a lot of strength, and the core of the store performed well. Tool storage, portable power, power tool accessories and hand tools turned in double digit comps.

They've added new benefits to the private label credit card they offer for Pros, and now offer 60 days to pay, 365 day returns and discounts at the fuel pump. New Pro accounts are ahead of plan.

Their Spring Black Friday event was very successful, and they have several events planned for the summer season. Even discounting the 150 basis points that favorable weather contributed to their results, they made plan.

Online sales grew 21.5% for the quarter, and online traffic grew in the double digits. About 40% of customers who order online choose to pick up their purchases in store. They believe that about 25% of the items they sell are at risk from online competition.

The rollout of COM, their new customer order management system, is on track to be up and running in all U.S. stores before the end of the year. They've been able to leverage their supply chain so they are able to meet 94% of customer demand with next-day shipping.

In some markets where Buy Online Deliver From Store (BODFS) has been introduced, demand has been much stronger than anticipated and is challenging their delivery capacity. They expect that just about everything they sell will be eligible for delivery and they will leverage the supply chain network to find the most effective ways to do that.

They hired more than 80,000 seasonal associates for the busy spring selling season.

Their supply chain Sync is in the initial phases of a multi-year rollout, but they are pleased with the initial results.

First quarter inventory was $13.2 billion, up $913 million from last year, and inventory turns were up one-tenth to 4.8.

During strategic planning last summer they had several groups of millennials work on what Home Depot will look like eight to ten years from now. Their research shows that the millennial generation has many of the same desires as earlier generations, but millennials wait about six years longer than other generations before they act on those desires, and, for example, buy a home.

Other News:

CEO Craig Menear told shareholders attending the company's annual meeting in May that the Home Depot is sticking with their goal of having $101 billion in annual revenue by 2018, and is currently about $12 billion shy of that number. While acknowledging that meeting the goal will be challenging, Menear said it is achievable. In 2000 THD was opening a store about every 48 hours, but over the past few years has opened only a handful, primarily in Mexico and Canada.

LOWE'S

Q1 net sales rose 7.8% to $15.23 billion, beating analysts' estimates. Comp sales rose 7.3%, well ahead of the 4.3% increase expected by analysts. Lowe's also raised their full-year guidance for profits.

From their Q1 Conference Call with Analysts:

For 2016 they expect total sales to increase 6%, based on a comp sales increase of 4%, the impact of the 53rd week in this year's fiscal year and the opening of approximately 45 stores, which includes 20 U.S. stores and 12 in Canada.

They had positive sales across all regions and product categories. Comp transactions grew 5.1% and average ticket grew 2.2%. Pro categories are outperforming the company average.

Tools and Hardware has been affected by increased project activity from both Pros and DIYers. To capitalize on that, they've improved their tool brand assortment and added exclusives from Hitachi and Bostitch.

Lowes.com sales grew 23.5% for the quarter and there was also strong growth in traffic as well as conversion. They have made a lot of improvements to their website to make it more user friendly.

Customers are choosing to either pick up or have delivered about 70% of the items ordered on Lowes.com.

They've improved their online shopping experience and provided opportunities for people to engage with knowledgeable associates whether they are in the store or online.

Their omnichannel offerings for Pros are being very well accepted and they are focused on making it easy for Pros to do business with them. They currently have more than 180 Pro outside representatives in the field and are seeing great success with that program.

They have tools in place so they can analyze how promotions are doing and leverage their supply chain so they don't run out of popular products.

Other News:

Lowe's is targeting millennials with a series of new advertising spots on social media, some of which are being posted on YouTube. This approach allows them to create much longer, story-based spots. Other elements are posted on Instagram, Facebook and Snapchat. Lowe's says that millennials' use of media is very scattered, and concentrated on smart phones and tablets. Lowe's wants to be sure they understand millennials and are their brand of choice when they do become homeowners. The YouTube spot attracted 43 million views in the first six days it was up. Lowe's is also airing long-form ads in movie theaters. Social media advertising is much less expensive than television. BBDO New York handles Lowe's social media program.

WALMART

Revenue rose 0.9% to $115.9 billion. Excluding the impact of currency, revenue rose 4%. Comp store sales increased 1%, excluding the effect of fuel prices, marking the seventh consecutive quarter of comp sales gains. Ecommerce sales growth continued to slow, rising 7% in the first quarter after rising 8% in the fourth quarter. Customer traffic rose 1.5%, but profits fell 7.8%. Results beat analysts' expectations.

Walmart had warned that profits might take a hit because they were spending heavily on categories that will help get customers back in the store and improve customer satisfaction. More than half of Walmart's revenue comes from groceries.

Walmart recently launched a 3-2-1 Save cash-back rewards program in partnership with Synchrony Financial. Cash-back rewards range from 1% to 3% for people who use the co-branded Walmart credit card. The highest reward category targets purchases made on Walmart.com. The previous rewards program offered $5 back for every $500 spent and savings of up to 5 cents per gallon at participating Walmart service stations.

Walmart spent $10.5 billion on information technology in 2015, according to market researcher International Data Corp. Five of the companies in the top ten are in financial services. WM is attempting to manage shifts in shopper behavior by building up ecommerce capabilities. WM plans to spend $2 billion on ecommerce by the end of 2017.

Walmart will offer two-day delivery for products shipped under its Shipping Pass, the members-only pilot program they are testing that's designed to compete with Amazon Prime. Walmart also cut the cost of the program from $50 to $49. Shipping Pass, still in the testing phase, currently offers free, unlimited shipping on more than 1 million items for subscribers. The products reportedly include the most popular items ordered on Walmart.com. Interested customers have to join a waiting list and receive an invitation to participate. Walmart has not disclosed the number of people participating in the pilot program.

W.W. GRAINGER

Daily sales increased 4% in April 2016 from April 2015. The sales growth included a 4% contribution from Cromwell Group, which was acquired September 1, 2015. Excluding acquisitions, organic daily sales were flat, driven by a 1% increase in volume and a 1% benefit from the timing of the Easter holiday, offset by a 2% decline in price. The month of April 2016 had 21 selling days, one fewer than the previous year. The 2016 second quarter will have 64 selling days, the same as the 2015 second quarter. Daily sales fell 1% in the U.S. and 14% in Canada (14% in local currency).

AMAZON

Amazon launched a video upload service similar to YouTube. Like YouTube, Amazon will make money from subscriptions, rentals and ads on the free broadcasts.

Amazon is shifting into private label groceries, a move analysts say appeals to millennials, who appreciate quality, price and taste, but are brand agnostics, and attracted by the concept that private label will be cheaper. Millennials already trust Amazon, so they are predisposed to trust products like coffee or detergent that come from Amazon.

MARKET TRENDS

THE WEALTH EFFECT DIMINISHING

Generally people spend more money as the value of their home increases; this is called the Wealth Effect. Back in 2005 households would spend an extra $3.40 for every $100 increase in the value of their home. Near the end of 2015, that amount was cut in half, to just $1.70. That means that home prices would have to rise twice as fast to generate the same effect on consumer spending. The wealth effect for liquid assets such as bank deposits is considerably higher because they are easier to put to use. A recent paper by the Dallas Federal Reserve states that the housing bust that occurred in 2008 may have left long-lasting scars on consumers, who may now be less likely to tap into their home's equity. However, the paper goes on to says that even without a supercharged boost from rising home prices, the outlook for consumer spending is bright.

FREE SHIPPING TREND FAVORS AMAZON

More than half of the orders in 2015 from 30 of the biggest ecommerce merchants were shipped for "free," compared to 33% in 2013. In 2012 30% of shoppers started their online search at Amazon; in 2015 44% started there. Amazon shipped more than 1 billion parcels in North America in 2015, 42% more than the next 10 shippers combined. Amazon's massive scale earns it the most favorable shipping rates, and makes it easier for them to offer free shipping with Amazon Prime.

SMART CITIES OF THE FUTURE

Smart Cities are trending, and it's expected that the smart city market will value more than $1 trillion this year, and grow more than 14% annually, according to a recent MarketsandMarkets study. Service providers need to reassess all the critical capabilities required for digitalizing services. Providing real time intelligence will be one key to success. Cloud-based solutions can generate new revenue streams. There will be many ways for businesses to benefit from the smart city trend, as all types of services are linked, from finding a parking spot to responding to an emergency to monitoring water and energy usage.

ECOMMERCE STRAINS SUPPLY CHAINS

Supply chains everywhere are struggling to adapt to the rapid response required by ecommerce. Ecommerce accounted for just 7.3% of the nation's total retail sales in 2015, but that was a 14.6% increase over 2014. Ecommerce demands faster response because sales are much more sensitive to triggers like weather, fashion, current events or social media. The faster data can flow through the supply chain, the more responsive it can be, which is why so many retailers involved in ecommerce are investing heavily in supply chain technology. Real-time data allows for adjustments while goods are in transit and allows retailers to fulfill orders through multiple channels. Cloud-based computing platforms can help eliminate information gaps and keep goods flowing. Target is cracking down on suppliers as part of a multi-billion dollar overhaul designed to speed up their supply chain, and is tightening deadlines for deliveries, and hiking fines for late deliveries. In addition, suppliers could be fined up to $10,000 for inaccuracies in product information. In February Walmart raised their standard for on-time delivery to 95% from 90%. Retailers see getting a tighter grip on deliveries as crucial to keeping shelves stocked, maximizing sales and controlling costs.

MOBILE IS RESHAPING SHOPPING

According to Deloitte Digital's latest study, digital interactions were expected to influence 64 cents of every dollar spent in retail stores last year, or $2.2 trillion shopping dollars. Another recent study showed smartphones and tablets used before and during influenced 28% of in-store sales in the U.S. These numbers are growing more rapidly than originally expected. Deloitte says that consumers who use digital while they shop convert at a 20% higher rate than those who do not. Because inventory data lives in many different places in the supply chain, it's critical for retailers to be able to blend and understand the data in real time along all points of the supply chain.

DRONES SERVICE CONSTRUCTION

The construction industry is the leading user of drone technology; the FAA has issued 40% of 4,600 exemptions to infrastructure and construction companies. Florida, California and Texas are the leading states with drone exceptions. The number of drone startups has surged. Drones are typically used to collect data and then feed it to software that analyzes and processes it all on a single platform.

TARGET LOOKS FOR SMART STARTUPS

Target is launching a series of Demo Days aimed at discovering interesting new smart products from startup companies. Target started out looking for smart baby products. Target has been using its San Francisco Innovation Team and Open House concept store in San Francisco as a pipeline to bring in more smart and connected products. Target cited a tiny Bluetooth tracker called Tile that finds everyday items in seconds. They're also testing a robot to track inventory on store shelves. The robot was built by Silicon Valley startup Robotics. Named Tally, it can roll around the store, scanning products to determine if they haven misplaced, mispriced, or are low in stock.

PRIVATE LABEL GAINS FAVOR

According to a recent study in USA Today, private label brands are popular with consumers, particularly millennials. Market Track Shopper Insight Series reported that 88% of those interviewed said they bought private label brands primarily because of price, 80% would choose private label over the national brand if it were cheaper, and 69% think the quality is the same.