

Market Briefing

2016 Issue 8 News from the month of July 2016



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Vermont American

CST/berger

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Sia

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U.S. ECONOMY

EXCHANGE RATES JULY 29, 2016

Euro	1 Euro = \$1.110	\$1.00 = 0.900 Euros
Canadian Dollar	1 CAD = \$0.751	\$1.00 = 1.318 CAD
Japanese Yen	1 Yen = \$0.009	\$1.00 = 103.360 Yen
Chinese Yuan	1 Yuan = \$0.150	\$1.00 = 6.652 Yuan
Mexican Peso	1 Peso = \$0.052	\$1.00 = 18.927 Pesos

MARKET WATCH JULY 29, 2016

DOW	18,432	2.8%
NASDAQ	5,162	6.6%
S&P 500	2,174	3.6%

Despite a lackluster finish to the month markets regained their lost ground in July, with the S&P hitting a record close mid-month before falling back slightly. For the month of July, the DOW gained 2.8% to close at 18,432, the NASDAQ gained 6.6% to close at 5,162 and the S&P, the index most closely followed by economists, rose 3.6% to close at 2,174.

CONSUMER CONFIDENCE STEADY

The New-York based Conference Board's Consumer Confidence Index was virtually unchanged in July at 97.3 after rising to a downwardly revised 97.4 in June. The Present Situation Index increased to 118.3 from a downwardly revised 116.6. The Expectations Index edged down to 83.3 after rising to an upwardly revised 84.6 in June. The Conference Board said that consumers were slightly more positive about current business and labor market conditions, suggesting that the economy will continue to expand at a moderate pace. Economists say a level of 90 indicates that the economy is on solid footing and a level of 100 or more indicates growth. Analysts caution that the real driver behind consumer spending is income growth and that labor market trends are a more accurate predictor of consumer behavior.

CONSUMER SPENDING RISES 0.4%

Consumer spending grew 0.4% in June after rising 0.4% in May and 1.1% in April. Personal income, including wages and salaries, went up a moderate 0.2% in June. Income has been rising slowly but steadily over the year. The personal saving rate fell to 5.3% from 5.5% in May, a sign that consumers are becoming less cautious. The personal-consumption expenditures price index, (PCE) the inflation measure preferred by the Federal Reserve, climbed 0.1%, as expected. The index rose 0.9% the past year, but is still well below the Fed's 2% target. The price index excluding the volatile categories of food and energy increased 0.1%, and was up 1.6% from a year ago. Strong consumer spending should give businesses confidence to expand, according to analysts. Consumer spending is closely watched by economists because it accounts for 70% of U.S. economic activity.

CONSUMER PRICES RISE 0.2%

The Consumer Price Index (CPI) rose 0.2% in June after rising 0.2% in May, making for four consecutive months of increases. In the 12 months through June the CPI increased 1.0%. Core prices, which strip out volatile food and energy costs, rose 0.2% in June after rising by the same amount in May. In the 12 months through June core inflation was up 2.3%, the seventh consecutive month of growth of 2.0% or more. The overall increase was less than expected, and primarily driven by a 1.3% increase in energy prices.

UNEMPLOYMENT RATE STEADY AT 4.9%

The unemployment rate held steady in July at 4.9% and the economy added 255,000 new jobs. Job gains for June and May were revised upwards by a total of 18,000 jobs. So far in 2016, the economy has added an average of 186,000 jobs a month, down from 229,000 a month in 2015. Job gains in July were broad-based, with only the sectors that serve the oil and gas industry shrinking. Average hourly earnings for private-sector workers rose by 8 cents, or 0.3% from June to July to \$25.69, the strongest showing in seven years. The labor participation rate went up slightly, a sign that more are entering the job force.

DURABLE GOODS ORDERS FALL 4.0%

New orders for durable goods fell 4.0% in June after falling a downwardly revised 2.8% in May. It was the largest decline since August 2014. The drop was led by a 58.8% decline in civilian aircraft orders, a typically volatile category. Orders for non-defense capital goods excluding aircraft, a category that serves as a proxy for business investment spending, rose 0.2% in June after falling 0.7% in May. Shipments of core capital goods, which factor into GDP calculations for business spending, fell 1.3% in June after rising 1.2% in May. Economists noted that the report shows that overseas unrest is affecting U.S. manufacturers. The durable goods report is often both volatile and subject to sharp revisions.

CHICAGO PMI SLIPS TO 55.8

The Chicago PMI slipped to 55.8 in July after jumping to 56.8 in June. It was the second highest reading for 2016 and above the consensus forecast of 54.4. It was also the first month since January 2015 that all five components of the PMI were above 50, the level which indicates confidence in the manufacturing sector. New Orders fell slightly to 59.3 from 63.2 in June, still close to the highest level in 18 months. Employment rose above 50, but overall inflationary pressures remained subdued, with prices paid falling slightly for the third consecutive month.

WHOLESALE PRICES RISE 0.5%

The Producer Price Index (PPI) rose 0.5% in June after rising 0.4% in May and was up 0.3% from June 2015. The core PPI, which excludes food, energy and trade services, rose 0.3% in June after edging down 0.1% in May and was up 0.9% in the 12 months through June. The increase in the PPI was greater than economists had expected. Energy goods and trade services once again accounted for much of the increase. The PPI for inputs to construction rose 0.1% in June after rising 0.5% in May but was down 2.8% from June 2015.

Q2 GDP GROWS 1.2%

GDP grew 1.2% in the second quarter, up slightly from a downwardly revised 0.8% growth in the first quarter and well below the robust 2.6% growth expected by economists. Stronger consumer spending was offset by weakness in housing construction and a big slowdown in inven-

tory restocking. Consumer spending, which accounts for 70% of economic activity, grew 4.2% in the second quarter, more than twice the 1.6% rate in the first quarter. But businesses cut inventories by 1.7% as they tried to get inventory in line with sales. Business nonresidential investment fell for the third consecutive quarter as the struggling energy sector caused sharp cutbacks in oil exploration and related activities. Housing construction, which has been a constant positive for the economy, shrank at an annual rate of 6.1% in the second quarter, with both single-family and multifamily showing weakness. Analysts are expecting the economy to grow at slightly better than a 2% pace for the second half of the year, which would produce an anemic annual GDP growth below 2%. In addition, the annual revision to 2015 GDP showed that growth for 2015 was 2.6%, up from the 2.4% previously reported.

JOB OPENINGS FALL IN MAY

There were 5.5 million job openings in May, down from 5.79 million job openings in April, according to the May Job Openings and Labor Turnover Summary (JOLTS) report. May's results marked the fewest job postings since December. The decline in jobs advertised by employers was focused mainly in the private sector, especially in the South and Midwest regions of the U.S. Hires were little changed across the country at 5 million in May. Also little changed were the 5 million separations, with 2.9 million quits and 1.7 million layoffs. 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 May jobs report mirrored the terrible month in the markets and general economic unrest; the economy and the job picture have improved significantly since then. The JOLTS report is one of Fed Chair Janet Yellen's preferred economic indicators.

FED LEAVES INTEREST RATES UNCHANGED

The Federal Reserve left interest rates unchanged at 0.25% to 0.5% at the July meeting of the Open Market Committee. The Fed said that risks to the U.S. economy have subsided and the labor market is strengthening. They also noted household spending is growing strongly, but business investment has been soft. Some economists believe the first increase in rates since last December

could come in September, but most think it is more likely the Fed will wait until December. The statements accompanying the decision were characterized as "upbeat but guarded." The committee repeated previous statements that interest rate increases would be gradual and it expects inflation to eventually reach its target of 2%.

BREXIT IMPACT ON U.S. ECONOMY

Brexit may have little impact on the U.S. economy this year, but next year could be a different matter, according to an analysis by Markit Ltd. After the initial overreaction to Britain's surprise decision to exit the European union, U.S. markets first recovered and then kicked into high gear. The new report from the London-based market analytics firm with major operations in Colorado says that Brexit will have little impact on U.S. GDP this year, but is likely to reduce GDP by 0.2% next year because of weaker exports and a stronger U.S. dollar. Worldwide, the Brexit vote is projected to reduce GDP 0.1% this year and 0.4% next year.

IMF DOWNGRADES ECONOMIC FORECAST

The International Monetary Fund cut its global economic growth projections by one-tenth of a percentage point to 3.1% this year and 3.4% next year to reflect the likely consequences of Great Britain's exit from the European Union. Before the Brexit vote, the agency had expected to raise its quarterly growth forecast.

DIGITAL PRICE INDEX

Adobe reported that its fifth monthly Digital Price Index (DPI) shows continued deflation in the vast majority of the goods and services the DPI tracks, with essentials such as groceries showing firmer prices than discretionary purchases such as electronics and sporting goods. Much of the deflation in June was driven by falling prices for tablets, televisions and appliances, with the category showing 3.5% deflation. The prices for electronics have dropped 10.5% year-over-year. Adobe reports that the DPI tracks \$7.50 out of every \$10 spent online with the top 500 U.S. retailers.

HOUSING & CONSTRUCTION

HOUSING STARTS RISE 4.8%

Housing starts rose 4.8% in June to a seasonally adjusted annual rate of 1.19 million units after falling to 1.16 million units in May. **Single-family starts rose 4.4%** to a seasonally adjusted annual rate of 778,000 units in June after being little changed at 764,000 units in May. Multifamily starts rose 5.4% to 411,000 units after dropping to 400,000 units in May. **Regional starts were mixed.** Starts rose 46.3% in the Northeast and 17.4% in the West. Starts fell 5.2% in the Midwest and 3.4% in the South. However, single-family starts were up in all regions. Analysts noted that results easily beat expectations, and that single-family completions have jumped 17.9% over the past year, which should give new home sales, which have been held back by supply, a big boost.

BUILDING PERMITS RISE 1.5%

Building permits rose 1.5% in June to a seasonally adjusted annual rate of 1.15 million units after rising to a downwardly revised 1.14 million units in May. **Single-family permits rose 1.0%** to a rate of 738,000 units. Multifamily permits rose 2.5% to 415,000 units. **Regional permit issuance was mixed.** Permits increased 9.4% in the Northeast and 8.3% in the South. Permits dropped 2.8% in the Midwest and 10.1% 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 3.5%

Sales of new single-family homes rose 3.5% in June to a seasonally adjusted annual rate of 592,000 units from an upwardly revised May reading. The inventory of new homes for sale remained at 244,000 in June, a 4.9-month supply at the current sales pace. In a normalized market, housing is generally at a six-month supply. **Regional sales were mixed.** Sales rose 10.9% in the West and 10.4% in the Midwest. Sales fell 0.3% in the South and 5.6% in the Northeast. New home sales are at their highest pace in more than eight years and are up 9.3% in the second quarter of this year compared to the first quarter. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the hous-

ing market than purchases of previously-owned homes, which are calculated when a contract closes.

EXISTING HOME SALES RISE 1.1%

Existing home sales rose 1.1% in June to a seasonally adjusted annual rate of 5.57 million from a downwardly revised 5.51 million in May. Sales were up 3.0% from June 2015 and remained at the highest annual pace since February 2007. Total housing inventory at the end of June fell 0.9% to 2.12 million existing homes for sale, 5.8% lower than in June 2015 and a 4.6-month supply at the existing sales pace. **Regional sales were mixed.** Sales fell 1.3% in the Northeast. Sales were unchanged in the South, and rose 3.8% in the Midwest and 1.7% in the West. Wells Fargo noted that in the short-term home sales may get a boost from still-low mortgage rates. Following Great Britain's unexpected vote to leave the European Union, the yield on U.S. 10-year Treasury notes fell sharply, pulling down 30-year fixed mortgage rates. However, analysts expect that impact to be short-lived. Low levels of inventories remain a challenge and are considered one of the biggest obstacles to a robust housing recovery.

BUILDER CONFIDENCE SLIPS TO 59

Builder confidence fell one point to 59 in July after rising to 60 in June. It was the sixteenth 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 dropped three points to 66. Commentary notes that the drop coincided with rising political uncertainty both abroad and at home. The component gauging current sales conditions fell one point to 63 and the component charting buyer traffic fell two points to 45. The drop in the HMI was primarily due to ongoing builder frustration with the availability of lots and the development process. The three-month moving averages for regional HMI scores were mixed. The South fell four points to 57; the Midwest, Northeast and West recorded modest gains. The Northeast remained the only region below 50.

MORTGAGE RATES REMAIN LOW

The 30-year mortgage rate remained at 3.48% at the end of July, the lowest level rates have been since May

2013 and only 17 basis points above the all-time low recorded in November 2012. In July of last year 30-year rates averaged 3.98%.

REMODELING MARKET DOWN SLIGHTLY

The Remodeling Market Index (RMI) fell one point to 53 in the second quarter. Nevertheless, it was the 13th consecutive quarter the RMI remained above 50, the level that indicates that more remodelers report market activity is higher compared to the prior quarter than report it is lower. The current market conditions index dropped one point to 54 with major additions and alterations dropping three points to 52, minor additions and alterations dropping one point to 53 and maintenance and repairs remaining unchanged at 56. Remodelers' expectations for the future were unchanged at 53. NAHB says that the overall RMI is in line with their forecast for continued steady growth this year.

POWER TOOL INDUSTRY

STANLEY BLACK & DECKER

Revenue grew 2% in the second quarter, fueled by 4% organic growth. Net sales were \$2.9 billion as positive volume growth of 3% and price growth of 1% more than offset the 2% negative impact of currency.

Tools and Storage saw growth of 8% with net sales increasing 5% compared to the second quarter of 2015 as 7% positive volume and 1% positive price more than offset 3% negative currency. All regions posted solid organic growth, with North America up 7%, Europe up 14% and emerging markets up 4%.

Share gain in North America continued due to a healthy underlying U.S. construction tool market and new products, which helped overcome "modest pressure" within industrial channels.

Working capital turns for the quarter were 8.2, up 1.2 turns from the second quarter of 2015, due to a focus on working capital management.

From their Q2 conference call with analysts:

Globally Power Tools had a double-digit quarter, up 10% with strength across Professional and Consumer Tools.

POS data was very strong in the mid-teens and ending retailer inventories were in line with or below historical norms. They credited improvements in inventory to the fact that their large customers have done a very good job mining data and working with them to cut the number of weeks at retail down from an average of ten to twelve to an average of eight to nine without being out of stock.

Momentum was good across all major retailers with high-single-digit performance.

Tools & Storage is projected to grow in high-single-digits for the year based on the very strong momentum they've seen in the first half combined with the impact of the pending FlexVolt launch.

They have already demonstrated the new DeWalt FlexVolt technology to more than 700 customers around the globe, including major retailers, distributors and other channel partners. FlexVolt will be released to the market in October. They will reportedly be conducting a "massive" end user demonstration effort as the summer proceeds. They said that FlexVolt will ultimately help deliver the long-held dream of a cordless jobsite.

Their expectation for any major launch, including FlexVolt, is that it will generate at least \$100 million in revenue over a three-year period, and they believe FlexVolt will exceed that very significantly. Flexvolt should hit stores in late September or early October and they have factored in about a half a point of growth this year, or roughly \$50 to \$60 million. In 2017 they expect it to be about a \$200 million business. They will be looking at sell-through in the initial 90 days very carefully so they can maximize their opportunity.

They are anticipating that Brexit will have some impact on their operating margins because of currency im-

pacts and the general uncertainty created by the U.K.'s decision.

Other News:

SB&D partnered with Cisco to provide an Internet of Things (IoT) solution that increases visibility and decreases complexity in one of the largest tool manufacturing plants in Mexico. Many DeWalt brand power tools are made in the 500,000-square-foot Reynosa manufacturing plant. The factory produces dozens of different products and has 40 multiproduct manufacturing lines. SB&D used RFID tags that use Cisco's wireless network on virtually all of the materials used which made tracking them easy. The system uses a Programmable Logic Controller to monitor quality control and allow floor managers to see every step of the process and determine how quickly employees are completing their particular steps. As a result, the plant saw labor efficiency increase 10% and utilization rates go from 80% to 90% now that products and machines are talking to the internet. SB&D estimates that equipment effectiveness increased 24% and that each line in the plant will see significant cost savings.

NEWELL BRANDS

Q2 revenue rises 147.2% to \$3.86 billion, topping analysts' estimates of \$3.76 billion. The Jarden business contributed \$2.22 billion in sales. Core sales overall grew 5%.

Sales in tools slipped 3.8% to \$197.4 million. Core sales fell 2.3%. Core sales exclude contributions from acquisitions and divestitures as well as negative impact from foreign currency.

NB reaffirmed their 2016 sales guidance of core sales growth between 3% and 4%.

TRIMBLE

Trimble is partnering with SCSEC Group 1, one of the largest building contractors in China, to explore the applications of mixed-reality technology in the Architecture, Engineering and Construction industry. As part of Trimble's Mixed-Reality Pilot Program, CSCEC Group 1 is the first organization in China to use Microsoft HoloLens and Trimble Mixed-Reality solutions. With mixed-

reality the primary mode of interaction is spatial, and design teams can review and interact with 3D models and explore previously invisible aspects of a building's performance. This ability allows team members to discover and correct problems and conflicts before actual construction begins.

RETAIL

RETAIL SALES RISE 0.6%

Retail sales rose 0.6% in June after rising a downwardly revised 0.2% in May and were up 2.7% year-over-year. It was the third straight month of gains. Online retail sales rose 1.1%. Core retail sales, which exclude automobiles, gasoline, building materials and food services, rose a solid 0.5% in June after rising an upwardly revised 0.4% in May. Sales of building materials rose 3.9% after falling 2.5% in May. Core retail sales correspond most closely with the consumer spending component of gross domestic product. Results were well ahead of analysts' expectations. Retail sales account for about one-third of all spending, with services making up the other two-thirds. Analysts said that the report showed that the economy was strengthening.

NRF RAISES RETAIL SALES FORECAST

The National Retail Federation raised its forecast for retail sales in 2016 to 3.4% from the 3.1% forecast earlier based on continued strong consumer spending. Online and other non-store sales, which are included in the overall figure, are expected to increase 7% to 10% year-over-year rather than the 6% to 9% forecast earlier. NRF also cited the improved housing market, job growth, higher wages and other factors that have strengthened the economy and boosted consumer spending. Retail sales in the first half of 2016 grew close to 4% on a year-over-year basis, according to NRF calculations, which exclude automobiles, gasoline stations and restaurants. NRF expects GDP to grow between 1.9% and 2.4% this year. NRF did caution that political uncertainty in this contentious election year could affect consumer behavior.

THE HOME DEPOT

The 2016 Harris Poll EquiTrend Retail Brands of the Year study named The Home Depot the hardware and home brand of the year for the fourth consecutive year. The study also showed that compared to other industries assessed in the study, retail ranks high on the brand equity scale, placing third just behind the restaurant industry. Food was the top-ranked industry, with technology and travel rounding out the top five industries. Within retail, hardware & home store was the top-ranked category. Harris said the ratings are driven by baby boomers and GenX shoppers who are investing in home improvements and moving up from starter homes. More than 97,000 U.S. consumers assessed more than 200 retail brands for the study. A brand's equity is determined by a calculation of familiarity, quality and purchase consideration.

LOWE'S

Lowe's is building a new \$100 million direct fulfillment center in Robertson County, Tennessee. Lowe's direct fulfillment center will cover some 1.1 million square feet, the equivalent of 22 football fields under one roof. Plans call for it to be operational by the third quarter of 2018, initially employing approximately 400 people and growing to 600 employees by 2022. Lowe's says their first direct fulfillment center will allow them to offer customers more products online, consolidate multiple parcel shipments and ship purchases directly to customers faster and more efficiently.

WALMART

Analysts think Walmart needs to give customers incentives to use their new mobile payment system, Walmart Pay, which is offered through the Walmart app and works with both Apple and Android devices as well as any credit, debit, prepaid or Walmart gift card. Walmart reported that 88% of Walmart Pay transactions are from repeat users, and the Walmart app, which has many other features, has more than 20 million active users. Walmart does not plan to add Apple Pay or Android Pay. More than 25% of U.S. smartphone users use payment apps at least once a month, according to a recent data analysis by Parks Associates. The firm says that more than three mil-

lion retailers now accept popular payment services, but data indicates consumers currently prefer retailer-specific applications. One analyst highlighted Starbucks, which processes 5 million mobile pay transactions per month, and rewards customers who use mobile payment with coupons and other perks. Benefits to the retailer include the ability to collect purchase information and other shopping habits.

Walmart is cutting about 1,500 non-sales jobs at about 500 locations in the Western region of the U.S. The employees being cut are expected to be offered new positions that will involve direct contact with shoppers. The goal is to get workers out of the backroom and onto the selling floor. As part of that strategy, Walmart is centralizing the invoice department for that region and installing cash recycler machines that automatically count money.

Walmart has formed a strategic partnership with Publicis Groupe, which will initially apply to Walmart's U.S. advertising and in-store creative efforts, but may expand eventually worldwide. That agreement ends Walmart's decade-long relationship with Virginia-based Martin Agency. Publicis is a massive global holding company of marketing and advertising agencies. According to Tony Rogers, CMO for Walmart's U.S. stores, they've defined their target customers as "busy families," a group that consists of 26 million households that have the highest need to save time and money.

ACE HARDWARE

Ace Hardware ranks highest in customer satisfaction with home improvement retailers for a 10th consecutive year, according to the J.D. Power 2016 Home Improvement Retailer Satisfaction Study. The study measures customer satisfaction with home improvement retailers by examining merchandise; price; sales and promotions; staff and service; and store facility. Satisfaction is measured on a 1,000-point scale. Ace Hardware scored 810 in overall customer satisfaction. Menard's followed Ace in second place overall with a score of 803. Lowe's placed third with a score of 799. Overall customer satisfaction with home improvement retailers rose to 795 from 788 in 2015.

W.W. GRAINGER

Sales rose 2% in the second quarter to \$2.6 billion.

Organic sales fell 2%. U.S. business sales fell 2.6% to \$1.98 billion. Canada sales fell 18.8% to \$194.42 million due to the weak economic environment. Other businesses' sales rose 48.7% to \$474 million. CEO Jim Ryan said the performance in the U.S. was slightly below their expectations, and that they remain challenged by the difficult industrial environment. Canadian business continues to be affected by a myriad of factors, including low oil prices, fires in Fort McMurray and unfavorable foreign exchange. Grainger lowered their sales guidance for the year from 0% to 6% growth to 1% to 4% growth.

From their Q2 Earnings Call with Analysts:

They're investing in areas that will promote growth and make them more efficient, including their supply chain, ecommerce capabilities, onsite services and tools to make the sales force more efficient.

In the United States they launched a new inside sales team, which has 275 representatives who primarily call on medium-sized customers.

They closed 27 branches in the United States as part of a previously announced plan to adjust the U.S. branch network.

Ecommerce represented 46% of sales in the first half of the year, up from 40% in the first-half 2015

Single channel online businesses increased revenue 34% on a daily basis over the 2015 second quarter. Zoro, their single channel online businesses, primarily serves small customers in the United States and Japan.

They initiated \$6 million of restructuring costs in the United States which were more than offset by gains on sales of branch real estate of \$15 million.

In the United States, June daily sales decreased 3%, driven by a 4% decline from volume and a 1% decline from price, partially offset by a 2% gain from intercompany sales, primarily to Zoro.

Customer end market performance for June was primarily flat or down. Retail was flat; light manufacturing, government and commercial were down in the low single-digits; heavy manufacturing was down in the mid-single-digits; contractor was down in the high single-digits; reseller was down in the mid-teens, and natural resources was down in the high-teens.

AMAZON

Q2 sales rose 31% to \$30.4 billion, well ahead of analysts' expectations. It was Amazon's third consecutive record-breaking quarter, and their fifth consecutive quarterly profit. For the current quarter Amazon expects sales to rise 22% to 32% to between \$31.0 and \$33.5 billion. Quarterly results did not include the impact of Amazon Prime Day, as the quarter ended June 30. Strong demand for ecommerce services and Amazon's cloud business lifted sales. Amazon saw shipping expenses rise 44% to \$3.3 billion during the quarter. Reducing shipping costs has been an area of focus for Amazon of late.

Amazon's second annual Prime Day, which was July 12, surpassed last year's totals by more than 50% in the U.S. and 60% around the world. JPMorgan estimated that the 2015 Prime Day produced \$400 million in additional revenues for Amazon. Shoppers globally bought more than 2 million toys, 1 million pairs of shoes, 90,000 TVs and hundreds of thousands of Kindle e-readers. Reportedly small businesses using the Amazon platform, an increasingly important part of Amazon's bottom line, saw orders triple compared to last year. Retail analysts noted that while there were lots of deals, there were not many that were extraordinary, and lots of items could be referred to as "clearance."

Amazon will open a bookstore in Manhattan, according to a report from *New York Post*. Sources say that Amazon Books will open in the large Hudson Yards retail space in late 2018 or early 2019. So far, Amazon has one physical bookstore open in Seattle and a second space planned in San Diego, although analysts report that insiders say that hundreds of bookstores are on the way. The move is viewed as part of the trend for online-only retailers to become omnichannel.

Amazon was granted a patent for a drone version of the Pony Express, described as a "multiuse unmanned aerial vehicle docking station system." A flotilla of drones would be deployed from tiny depots perched on light poles, carrying packages for customers. Drones would make their way from docking station to docking station until they reach the customer, stopping whenever they get low on charge. Amazon's most recent prototypes can carry packages of up to five pounds. Actual drone delivery is far in the future; the most recent drone rules do not allow for package delivery. Most likely packages would be delivered to centralized points where people would take over and make the actual delivery to the customer.

Amazon in Great Britain has pledged to stop using large boxes to deliver small items and is testing software called Box on Demand that is designed to ensure that items are sent in packaging of an appropriate size. Amazon says the change was driven by customers protesting that it was wasteful to ship tiny items in big boxes. Amazon will be testing the software at warehouses throughout Europe for the next year.

Amazon bought cloud computing company Cloud9, which they'll integrate into their cloud computing division. Cloud9 is a startup founded in 2010 in San Francisco. Financial terms were not disclosed. The company's technology allows software engineers to write software in a cloud environment.

MARKET TRENDS

AMAZON'S ECHO SIGNALS A TREND

Journalists reporting on Amazon's second annual Prime Day noted that other retailers should pay special attention to how easy Amazon made it to shop with Amazon's Echo. The voice-powered home entertainment/information hub guided owners to bargains reserved just for them, and made it super-easy for people to take advantage of their special deals. They even got an extra \$10 in savings if it was the first time they'd used Echo to order something. One Orange County journalist said that his two brief (seconds each) chats with Alexa, the voice personality that emits from the Echo device, got

him two super bargains. Simply telling her to buy was all he had to do—no clicks or multiple processes involved. The story went on to note that it was easy to see how shopping with Alexa could become addictive. Amazon Echo was on sale for Prime day, discounted from \$180 to \$130 for Prime Day, reportedly racked up its single-largest sales day ever.

HOW AMAZON PAYS FOR FREE SHIPPING

Amazon's (and now Walmart's) free fast shipping for members is molding consumer expectations in ways that all retailers will have to deal with. An in-depth look at the free-shipping component of Amazon Prime shows that one of the main mechanisms that makes free shipping for consumers possible is the fact that merchants pay fees on the back end that consumers do not see. Retail analysts say that many merchants price these fees into the prices they charge for products. There is a small indicator on the website that says "Fulfilled by Amazon" that lets consumers know the item is Prime Eligible and Amazon is shipping it. Amazon inventories those items, and charges merchants per cubic foot of volume, a charge that goes from \$0.54 per cubic foot of volume in the first nine months of the year to \$2.25 per cubic foot in the fourth quarter holiday season. Long-term storage fees add to the cubic foot charges. Merchants say that big bumps in volume justify the additional charges, plus Amazon provides a lot of support. Despite all that, shipping is still a net loss for Amazon that generally totals about 5% of net sales. For the first quarter of 2016, Amazon had \$29.1 billion in sales and \$1.5 billion in shipping costs.

COMPANIES FOLLOWING MILLENNIALS

Companies from Amazon to McDonald's are moving from the suburbs back to the city, squeezing new offices and corporate headquarters into urban areas where millennials prefer to live. GE is moving from suburban Connecticut to Boston, Uber is planning headquarters in San Francisco's Mission Bay, LinkedIn moved into a downtown San Francisco tower, and McDonald's is moving from suburban Oak Brook to Chicago. Amazon is building a new 500-foot tall office tower complete with three 100-foot-tall futuristic looking structures they refer to as biospheres in downtown Seattle. When they open in 2018 they will host more than 300 plant species from around the world, creat-

ing what Amazon says will be the workplace of the future. Amazonians will be able to take a break and walk amid the greenery along suspension bridges and climb into meeting spaces resembling bird nests perched in mature trees to brainstorm. The new headquarters was designed to project a forward-thinking company eager to help employees be more productive, creative and happy—and give them a workplace that's within walking distance of everything downtown Seattle has to offer. Amazon's new campus occupies more than 10 square blocks, which is more than 15% of Seattle's office inventory. There is so much interest in their futuristic campus they offer two tours each week; they are currently booked up through October.

INTERNET OF THINGS TRIGGERS IMPULSE PURCHASES

Almost one out of every two dollars spent online will come from online purchases made using a mobile device by 2020 according to JAVELIN'S recent Online Retail Payments Forecast report. The report notes that what it refers to as a new "contextual" consumer's reliance on the IoT and other mobile devices creates an environment for greater impulse purchases. Buy buttons, first introduced in 2014, allow consumers to casually browse and purchase while on social media sites. Mobile payments seem easier and faster to consumers, who are getting used to the one-button, one-click method of commerce, which is perceived as being much simpler than loading things into your shopping cart and checking out on a website.

ARE BIG BRANDS THE BAD GUYS?

There is a perception increasingly popular with a new generation of consumers that the massive scale of many big brands causes more harm than good, while startup brands are inherently beneficial for the planet because they can build better processes, business models, infrastructure and more. A recent survey by Deloitte found that one-third of U.S. consumers would pay at least 10% more for a "craft" product as compared with a big name brand. However, Trend Report pointed out that big brands have the scale, reach, resources and human capital needed to effect massive change, as well as many decades of

accumulated skills and knowledge. So if they use their power to create change for the greater good, they can have a much wider-ranging impact than a startup.

WHAT IMPROVES CUSTOMER SATISFACTION

The J.D. Powers 2016 Home Improvement Retailer Satisfaction study found that customer interactions with staff on the floor greatly influence overall customer satisfaction. The study revealed that overall satisfaction declines significantly when a customer waits more than two minutes to have their question answered, and also found that the 46% of customers who asked an employee for help rated top performer Ace Hardware 14 points higher than those who did not ask for help. The study also showed that customers want retailers to provide advice, but only 42% said that the staff did so. However, if staff did provide advice, satisfaction ratings shot up. The study also found that higher customer satisfaction significantly increased customer loyalty and intent to repurchase and to recommend the retailer to others. This study was fielded in January and February 2016; respondents must have purchased from a home improvement retailer within the past 12 months. Staff interaction may become an increasingly important factor that could influence whether customers choose to shop online or in-store.