MarketBriefing

2017 Issue 3 News from the month of February 2017

BOSCH
Invented for life

Bosch

Dremel

RotoZip

Vermont American

CST/berger

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freud

Sia

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U.S. ECONOMY

EXCHANGE RATES FEBRUARY 28, 2017

Euro	1 Euro = $1.061	$1.00 = 0.943 Euros
Canadian Dollar	1 CAD = $0.757	$1.00 = 1.321 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 112.050 Yen
Chinese Yuan	1 Yuan = $0.146	$1.00 = 6.867 Yuan
Mexican Peso	1 Peso = $0.050	$1.00 = 19.950 Pesos

MARKET WATCH FEBRUARY 28, 2017

DOW	20,812	4.8%
NASDAQ	5,825	3.8%
S&P 500	2,364	3.7%

All three indexes recorded gains for the month of February, with the DOW recording 12 days of consecutive record closes before falling back slightly the last day of the month. The DOW soared past the 20,000 mark, closing at 20,812, up 4.8% for the month. The NASDAQ closed at 5,825, up 3.8% and the S&P, the index most closely followed by economists, closed at 2,364, up 3.7%.

CONSUMER CONFIDENCE RISES TO 114.8

The New-York based Conference Board's Consumer Confidence Index rose to 114.8 in February after dropping to 111.6 in January. Consumer confidence is at a 15-year high. The Present Situation Index rose to 133.4 from an upwardly revised 130.0 and the Expectations Index increased to 102.4 from 99.3 in January. Overall, consumers expect the economy to continue to expand. Consumers' assessment of current conditions held relatively steady in February, and they were more optimistic about the short-term outlook. The percentage of consumers expecting business conditions to improve over the next six months increased from 22.9% to 24.0%. 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 0.2%

Consumer spending rose 0.2% in January after rising 0.5% in December. Core consumer spending, which is adjusted for inflation, fell 0.3% in January after rising 0.3% in December. It was the first drop in core spending since last August and the biggest decline in three years. Personal income rose 0.4% in January after rising 0.3% in December, making for twelve consecutive months of gains. In the 12 months through January the PCE price index advanced 0.4% after rising 0.2% in December. The core PCE price index, which is the Fed's preferred measure of inflation, rose 0.3% in January after rising 0.1% in December and was up 1.7% in the 12 months through January. Consumer spending is closely watched by economists because it accounts for 70% of U.S. economic activity.

CONSUMER PRICES RISE 0.6%

The Consumer Price Index (CPI) rose 0.6% in January after rising 0.3% in December and was up 2.5% over the past 12 months. It was the biggest monthly increase since February 2013, and about double what economists were expecting. Core inflation, which excludes food and energy, was up 0.3% in January after rising 0.2% in December and was up 2.3% over the past year. Core inflation has been in a range between 2.1% and 2.3% since December 2015. The rising cost of gasoline, up 7.8%, was once again the biggest factor in the increase in the index in January. The energy portion of the CPI was up 10.8% over the last 12 months, the largest 12-month increase since November 2011.

UNEMPLOYMENT FALLS TO 4.7%

The U.S. economy added a healthy 235,000 jobs in February and the unemployment rate fell to 4.7% from 4.8% in January. Job gains for December were revised down and gains for January were revised up, resulting in an additional 9,000 more jobs than initially reported. Hourly wages rose by 6 cents to $26.09 in February, after a 5-cent increase the month before. The labor force participation rate was little changed at 63.0%. Construction employment increased by 58,000, with gains in specialty trade contractors (+36,000) and in heavy and civil engineering construction (+15,000). Construction has added 177,000 jobs over the past 6 months. Retail lost 26,000 jobs in February. The healthy jobs report surpassed economists' expectations and likely cleared the way for the Federal Reserve to raise interest rates at their meeting in March. Fed Chair Janet Yellen has said the economy needs to create just under 100,000 jobs a month to keep up with growth in the working-age population.

DURABLE GOODS ORDERS RISE 1.8%

Durable goods orders rose 1.8% in January after falling by a downwardly revised 0.8% in December. Economists had expected orders to increase 1.7%. The rise came after two consecutive months of declining orders. Orders excluding transportation, which can be a highly volatile category, dropped 0.2% in January after an upwardly revised 0.9% increase in December. Capital goods orders for non-defense items excluding aircraft, which are seen as a proxy for business spending, fell 0.4% in January after rising 0.8% in December. Shipments of non-defense capital goods excluding aircraft, which are used in the calculation of GDP, dropped 0.6% in January after surging an upwardly revised 1.6% in December. The durable goods report is often both volatile and subject to sharp revisions. Wells Fargo believes the stall in January is likely temporary, and expects orders and manufacturing activity to continue to firm in 2017.

CHICAGO PMI RISES TO 57.4

The Chicago PMI rose to 57.4 in February after falling to 50.3 in January, rising well above analysts' consensus of an increase to 53.0. It was the strongest reading since January 2015. New orders rebounded strongly and moved back into positive territory for the month and production rose to a 13-month high of 60.3. The prices paid index rose to 68.6 from 61.4, the highest level since September 2014. Order backlogs also increased, but remained below the break-even level of 50.0 for the third successive month. Inventories were up strongly. Supplier deliveries fell to the lowest level in four months, which analysts say could suggest capacity issues, and the PMI’s employment index moved into expansion for the first time in four months. More significantly, it was the highest employment reading for the index since October 2014. The February reading marked the ninth month of expansionary business activity in the U.S.

WHOLESALE PRICES RISE 0.6%

The producer price index (PPI) rose 0.6% in January after rising 0.3% in December. It was the largest advance since the fall of 2012. Wholesale prices were up 1.6% from January 2016. Wholesale prices for gasoline jumped 12.9% in January and 32.3% over the past year. Rising energy costs have recently become a prime source of inflation, reversing a trend in recent years in which falling oil prices were suppressing inflation. Excluding energy, food and services for wholesaling and retailing, producer prices increased just 0.2% in January. The PPI for inputs to construction rose 0.7% in January after rising 0.7% in December and was up 3.1% over the past year. Steady consumer demand and more stable commodity costs are expected to keep producer prices moving upwards; the strong dollar could moderate increases.

Q4 GDP RISES 1.9%

GDP growth in the fourth quarter was unchanged at 1.9%, according to the Commerce Department’s second estimate, but consumer spending for the quarter was revised up to 3.0% from the previously estimated 2.5%. Economists had expected GDP growth would be revised up to 2.1%. The upward revision to consumer spending helped offset modest downward revisions to business investment spending and state and local government spending. The big gain came from spending on healthcare services, which was revised up and contributed 0.66% to overall growth of 1.9%.

GDP FORECASTS

President Donald Trump has set a goal of doubling growth to 4% annually through an ambitious stimulus program of tax cuts, deregulation and infrastructure spending. Economists think 4% growth is very ambitious, but many have raised forecasts based on Trump’s stated policies and objectives, and some private economists now think GDP will grow 2.4% this year and 2.7% in 2018. The New York Federal Reserve’s Nowcast model projected U.S. economic growth for the first quarter at about 3.1%, which would track to an annualized pace of 3.09%. The members of the Economic Advisory Committee of the American Bankers Association expect GDP growth this year to be 2.2%, and growth next year to be around 2.7%.

JOB OPENINGS STEADY

Job openings held steady in December at 5.5 million according to the Job Openings and Labor Turnover Survey, or JOLTS. Excluding education, state and local government openings declined by 85,000. The number of unemployed job seekers per opening held steady at 1.4. For full year of 2016, hires totaled 62.5 million and separations totaled 60.1 million, with a net gain in employment of 2.4 million. The number of people who quit their job dropped by 98,000 in December, bringing the quits rate back down to 2.0%. A rising quits rate signals increasing worker confidence in the labor market and generally leads to faster wage growth. The JOLTS report is one of Fed Chair Janet Yellen's preferred economic indicators.

FED COULD RAISE RATES IN MARCH

Many economists are predicting that the Federal Reserve will raise interest rates as early as their March meeting, based on a series of strong economic reports in January. Fed Chair Janet Yellen told the House of Representatives that the central bank does not want to fall behind a fast-growing economy and be forced to raise rates quickly. Economists say that Yellen's cautious approach also means that the Fed is not likely to move too quickly. Economists also point out that the Fed could end up at odds with President Trump because a tax cut or infrastructure-led stimulus could boost the economy further, leading the Fed to tighten rates more rapidly. That, in turn, could make it hard for Trump to reach the 4% annual growth he's promised.

FED CALLS GROWTH DISAPPOINTING

Janet Yellen said that economic growth has been "very disappointing" when she presented her first monetary policy report to a House panel since the presidential election. Yellen defended the Fed's record, noting that 16 million jobs have been added since the economy bottomed out, unemployment has fallen below 5% and annual inflation is at 1.6%. However, the economy only expanded 1.5% in 2016. Fed governor Daniel Tarullo announced he is leaving the board in early April. Two seats on the seven member board have been open for nearly three years. Tarullo's departure will give President Trump three Fed positions to fill. Yellen also pledged to work with Treasury Secretary Steven Mnuchin to fulfill an executive order from Trump to review federal financial laws and regulations. Some members are urging the repeal of Dodd-Frank, passed after the banking crisis to hold banks more accountable. Yellen told senators that Dodd-Frank has restored the banking system to safety and profitability. She said that regulations are not a key factor in restraining economic growth, and also warned that a radical change in the government's policy on immigration could pose an economic risk and affect the potential for the economy to grow.

HOUSING & CONSTRUCTION

HOUSING STARTS FALL 2.6%

Housing starts fell 2.6% in January to a seasonally adjusted annual rate of 1.246 million after unexpectedly rising more than 10% in December. **Single-family starts rose** 1.9% to 823,000 units after falling to 795,000 units in December. Multifamily starts fell 10.2% to 423,000 units after jumping 57% to 431,000 units in December. **Regional starts were mixed.** Starts rose 55.4% in the Northeast and 20.0% in the South. Starts fell 17.9% in the Midwest and 41.3% in the West, where builders were dealing with torrential rain and heavy snow after years of drought. January is traditionally one of the slowest months for homebuilding each year and the reported numbers are heavily influenced by seasonal adjustment. Wells Fargo continues to look for modest gains in homebuilding this year and expects overall starts to rise 6.3% to a 1.24 million-unit pace. Single-family starts should rise 10.1%.

BUILDING PERMITS RISE 4.6%

Building permits rose 4.6% in January to a seasonally adjusted 1.285 million units after falling to 1.21 million units in December. Single-family permits fell 2.7% to 808,000 units after rising to 817,000 units in December. Multifamily permits rose 19.8% to 477,000 units after falling to 393,000 units in December. **Regional permit issuance was mixed.** Permits rose 29.6% in the Northeast, 9.9% in the South and 5.3% in the Midwest. Permits fell 13.2% in the West. Permits have been above the one million level for eighteen consecutive months, the longest stretch in seven years.

NEW-HOME SALES RISE 3.7%

Sales of new single-family homes rose 3.7% in January to a seasonally adjusted annual rate of 555,000 units after falling to 563,000 units in December. Sales for the previous three months were revised down by a total of 27,000 units. The downward revision left new home sales for 2016 up 12% to 561,000 units. The inventory of new homes for sale rose to 265,000 in January after rising to 259,000 in December, a 5.7-month supply at the current sales pace, down from a 5.8-month supply in December. **Regional sales were mixed.** Sales rose 15.8% in the Northeast, 14.8% in the Midwest and 4.3% in the South. Sales fell 4.4% in the West. NAHB says sales are generally in line with their forecasts for steady, gradual growth, but may be hampered by problems on the supply side, including shortages of lots and labor. 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 3.3%

Existing home sales rose 3.3% in January to a seasonally adjusted annual rate of 5.69 million homes after falling to an upwardly revised 5.51 million units in December 2016. Sales were up 3.8% from January 2016, and the strongest pace of sales since February 2007. Total housing inventory at the end of January rose 2.4% to 1.69 million existing homes for sale, 7.1% below January 2016. Total housing inventory has dropped year-over-year for 20 consecutive months. Unsold inventory is at a 3.6-month supply at the current sales pace, unchanged from December 2016. Tight housing supply is impacting affordability and driving up rents as well. **Regional sales were mixed.** Sales rose 5.3% in the Northeast, 3.6% in the South and 6.6% in the West. Sales dropped 1.5% in the Midwest.

BUILDER CONFIDENCE DROPS TO 65

Builder confidence fell two points to 65 in February after dropping to 67 in January, according to the HMI (National Association of Home Builders/Wells Fargo Housing Market Index). All three HMI components fell in February, with current sales conditions dropping one point to 71, the index charting sales expectations over the next six months falling three points to 73 and the component measuring buyer traffic dropping five points to 46. The three-month moving averages for HMI scores fell two points to 50 in the Northeast and one point to 67 in the South. The three month moving average held steady in the West at 79 and rose one point in the Midwest to 65. It was the twenty-first consecutive month the HMI remained above 50. Builders remain optimistic that a new Congress and administration will help create a better climate for small businesses and streamline and reform the regulatory process.

MORTGAGE RATES FALL SLIGHTLY

The 30-year mortgage rate fell slightly to 4.16% at the end of February after falling to 4.19% at the end of January. In February last year 30-year rates averaged 3.62%.

POWER TOOL INDUSTRY

ROBERT BOSCH

Robert Bosch Power Tools sold the Skil and Skilsaw brands to Chervon, a top manufacturer of power tools, outdoor power equipment and related products. Chervon is relocating their North American headquarters and more than 100 employees to Naperville, Illinois. Financial terms were not disclosed.

Bosch is partnering with IBM at the new Internet of Things Towers in Munich, Germany. The new IoT center will serve as a hub for collaboration between IBM and their clients and partners, including Bosch. IBM says this is a truly transformative technology. Bosch will integrate their industrial IoT Suite with IBM's Bluemix and Watson IoT platforms to allow customers to update their IoT devices. Users will be able to access Bosch IoT rollouts via the IBM cloud.

STANLEY BLACK & DECKER

From the Barclay's Select Industrial Conference, where SB&D was represented by CFO Don Allan.

They are very focused on breakthrough innovation, and ideally would like to see something breakthrough rolling out every year, but think it will be 2018 before another breakthrough concept is introduced. Right now they have 10 to 15 projects they are working on, and know that the vast majority of them will not be successful, either because they cannot be technically accomplished or because they can't be commercialized. Their goal is to get one to two that can be commercialized and be successful.

They have not begun to talk about markets for Craftsman, as the deal still needs to close. But they have begun to think about it, and feel that there is an opportunity to sell through one or possibly two big box retailers, and definitely an opportunity to sell through their Mac Tool business. There are also many other areas that could be very lucrative including outdoor products and mechanics tools.

Bolt-on acquisitions will be their primary M&A target, with larger acquisitions being secondary targets, as they've recently made large acquisitions with both Newell and Craftsman. Many of the bolt-on acquisitions they are looking at are privately held, so timing is pretty flexible.

They are looking to move from 4% organic growth to 6% growth and will look at acquisitions that will help them move in that direction.

There are certain things they are doing within the Tools & Storage business like Tool connect products that are digitally oriented that are selling and delivering great value, but as far as return on investment, commercial has the highest return, breakthrough is second and then digital.

They are not expecting the kind of commodity inflation that would cause them to need to have conversations with customers about pricing.

They have contingency plans in place if there are tariffs or other restrictions on products coming in from China or Mexico. They have looked at how much manufacturing they could or would want to move back into the U.S. within a three-year timeframe. There are certain products that wouldn't make sense to manufacture in the U.S. The initial shock might be tough on the bottom line, but they think they can neutralize it over three or four years. They are the only tools manufacturer currently manufacturing in the U.S. so that gives them a base to build on, and would make it easier for them to adapt than companies that would need to start from scratch.

They are very focused on getting their deals closed and starting the integration process, and that will be their primary focus for the remainder of this year.

Other News:

DeWalt's 10-millionth tool was produced by their North Carolina manufacturing plant in February. Executives noted that across all seven of their U.S. manufacturing plants DeWalt produced more than 90 million individual products made in the USA with global materials in 2016, an almost 50% increase from 62 million individual products produced in 2015.

TTI/TECHTRONIC INDUSTRIES

Milwaukee Electric Tool wants to build two new buildings and renovate existing ones at their headquarters in Brookfield, Wisconsin. They've asked the city to approve an 18,000-square-foot expansion of their 16,500-square-foot research facility, which is known as the Rapid Innovation Center. They're also planning a 10,000-square-foot expansion of their 5,600-square-foot annex building and intend to create new facades for both the research facility and their main headquarters building. Work underway on their headquarters building will add 207,000 square feet to their existing 183,000 square feet, as well as increase the building from a single story to four stories. They would like to start the latest projects this spring and complete them by fall when the headquarters addition is scheduled to be finished. Milwaukee employed about 300 people at the corporate campus in 2011; they have nearly 800 people working there now. The Brookfield Common

Council kicked in $6 million to help pay for the headquarters addition. Milwaukee says the expansion could add another 500 jobs within the next five years.

TRIMBLE

Q4 revenue rose 5% to $585.5 million. Engineering and Construction revenue rose less than 1% to $320.2 million. Fiscal 2016 revenue was up 3% to $2.4 billion. Engineering and Construction revenue rose 2% to $1.3 billion. Every segment reported organic revenue growth and margin expansion in the second half of the year, and they anticipate 2017 will bring continued growth and margin improvement.

Trimble acquired Beena Vision, which will become part of the Engineering and Construction section. Financial terms were not disclosed.

RETAIL

RETAIL SALES RISE 0.4%

Retail sales rose 0.4% in January after rising an upwardly revised 1.0% in December and were up 5.6% from January 2016. Core retail sales, which exclude auto sales and gas, rose 0.7% in January. Higher gas prices were behind a 2.3% sales increase at service stations; gas prices rose 7.8% last year. Building materials sales rose 0.3%. Sales at non-store retailers, which include internet sales as well as catalog sales, were flat in January, but up 12% over the past year. Retail sales account for one-third of all spending, with services making up the other two-thirds.

2017 RETAIL SALES FORECAST

The National Retail Federation (NRF) expects retail sales to rise 3.7% to 4.2% this year, matching or exceeding the 3.7% growth seen in 2016. Overall numbers will be given a boost by online and non-store sales, which include catalogs and kiosks. Those sales are expected to increase between 8% and 12%. The NRF says that jobs and incomes are growing, debt is low and consumer confidence is strong, but believes consumers will remain hesitant to spend until they are more certain about policy changes on taxes, trade, healthcare and other issues being hotly debated in Congress. NRF's forecast excludes automobiles, gasoline stations and restaurants and does not factor in any potential policy changes, some of which, like health care, regulations, border taxes and tax reform, are of particular interest to retailers. The NRF says that a border adjustment tax would have the ultimate effect of raising prices for middle and working class Americans on virtually everything they purchase. In addition to expecting online sales to continue to strengthen, NRF expects strength in home and home improvement retailers, benefiting building supplies and appliances.

SUPPLY CHAIN DISRUPTION

President Trump's call for a radical renegotiation of the North American Free Trade Agreement (NAFTA) and a tariff on goods coming into the U.S. from U.S.-owned plants operating in Mexico could bring big disruptions to supply chains, according to the *Journal of Commerce.* The NAFTA agreement was enacted in 1994, and economists in Mexico have said that they are not opposed to renegotiating, as the current agreement, in their opinion, favors the U.S. In addition, Trump's continuing attacks on Mexico have helped devalue the peso, which in turn is making it less expensive for the U.S. and other foreign companies to export to Mexico as well as to manufacture in Mexico and export to the U.S.

RETAILERS MEET WITH WHITE HOUSE

President Trump hosted a White House meeting with CEOs of eight major retailers, including Target, Best Buy and Tractor Supply. Retailers wanted to encourage Trump to overhaul the corporate tax code and slash tax rates and also hoped to convince the president to oppose a new border tax on imported goods being proposed by the Republican-controlled House of Representatives. The group also met with the heads of two tax-writing congressional committees. Kevin Brady, the chairman of the House Ways and Means Committee and House Speaker Paul Ryan are leading the push to cut the corporate income tax to 20% from its current rate of 35%, one of the highest in the world. Companies that rely heavily on imports, including many retailers, say the proposed border tax would outweigh the benefits of lower corporate taxes. A group of major exporters, including GE, Boeing and Pfizer, have formed a separate coalition to support the import tax.

ONLINE SALES GROWTH

Sales online increased 15.6% to $394.9 billion in 2016, while total retail sales increased 2.9% to $4.85 trillion. Total retail sales include fuel, automobiles and other things not typically bought online. Online payments and ecommerce experts the Paypers factored out those items as well as foodservice sales and reported that core retail sales were up 3.9% to $3.37 trillion. Ecommerce sales represented 11.7% of total retail sales in 2016, compared to 10.5% in 2015. According to Paypers analysis, that means that online sales represented 41.6% of all retail growth in 2016. Amazon reported U.S. sales of $147.0 billion in 2016, a 31.3% increase from 2015 according to Internet Retailer and ChannelAdvisor estimates. That would mean that Amazon accounted for nearly 70% of the $53.1 billion growth in U.S. online retail in 2016 and 27.4% of the $127.6 billion increase in total retail sales.

THE HOME DEPOT

Q4 revenue climbed 5.8% to $22.2 billion, beating analysts expectations. Comp sales rose 5.8%, beating expectations of a 3.5% increase.

For fiscal 2016 sales rose 6.9% to $94.6 billion, and comp sales rose 5.6%. Comps for U.S. stores were up 6.2%. During the year the stronger U.S. dollar negatively impacted sales growth by about $549 million or 0.6%. They had about 3 basis points of gross margin contraction for the year, due mainly to a change in the mix of products sold. They are planning for gross margin to drop by about 15 basis points this year because they are planning on outpaced growth in lower margin categories such as appliances and certain building materials categories.

THD expects sales to rise 4.6% this year, which would equate to revenue of about $99 billion. As the housing market continues to recover, they believe they have a big opportunity to grow.

From THD's Q4 Conference Call with Analysts:

All three U.S. divisions posted positive comps in the fourth quarter, as did all 19 U.S. regions and top 40 markets. Internationally, both Mexico and Canada posted positive comps in local currency for the quarter.

There was a good balance of growth between the Pro and DIY categories, although Pro sales outpaced DIY sales. There is a good balance between high-spend and low-spend Pros and growth is being driven by increases in transactions as well as in average ticket.

All merchandising departments posted positive comps, led by Flooring and Tools, which had double-digit comps in the quarter.

Total comp transactions grew 2.8% and comp average ticket grew 2.9%. Average ticket increase was slightly impacted by commodity price inflation and foreign currency. Big ticket sales, which are transactions over $900 and represent about 20% of U.S. sales, were up 11.6%. The big drivers behind the big ticket increase were flooring, appliances and several Pro categories.

Some categories like appliances are very promotionally driven; others like Pro-heavy products need to be priced for every day great value.

Their Black Friday, gift center and holiday programs drove record sales, and they had their highest Cyber Week ever. Tool Storage and Power Tools turned in very robust comps. Spring Black Friday is right around the corner.

The roll-out of Interline's catalog of products is now taking place across all U.S. stores.

Their online business grew 19% compared to 2015 and now represents 5.9% of total sales.

About 45% of online U.S. orders are picked up in stores, which they attribute to their interconnected retail strategy.

During the fourth quarter they completed the rollout of Buy Online Deliver From Store (BODFS). They are pleased with the customer response to this delivery option.

Customer demands are changing, and they must continue to simplify operations for store associates.

They completed the rollout of manual flow load for trucks from their RDCs to stores in the fourth quarter. It's a documented process for better utilization or cube-out of trucks on route to stores. It's standardized across all stores and reduces transportation costs by fully utilizing the capacity of each store-bound truck and improving freight movement at the back of their stores.

98% of stores qualified for Success Sharing, their profit sharing program for hourly associates.

They're planning to invest about 2% of sales into capital spending, investing in initiatives including interconnected retail, supply chain and stores. They need to do some reconfiguration in stores to accommodate the number of online orders that are picked up in stores. This year about 500 stores will be getting a new store environment.

Other News:

The Home Depot ventured into wind power with a 20-year contract to the Los Mirasoles wind farm in Texas, which is owned and operated by EDP Renewables North America. Their deal for a fifth of the wind farm's capacity will provide enough energy to power 100 Home Depot stores for a year. THD has a target of procuring 135 MW of renewable energy sources by the end of 2020. Home Depot also purchases power from solar farms in Delaware and Massachusetts.

THD once again was one of the top retailers that excelled in customer service in the 20th Annual Mystery Shopping Study from Astound Commerce. Winning merchants scored highest in four critical areas: visibility, overall customer service, speed of delivery and efficiency of checkout. The Home Depot was the only home center store in the top ten.

LOWE'S

Q4 sales increased 19.2% to $15.8 billion and comp sales increased 5.1%. For the fiscal year, sales rose 10.1% to $65.0 billion and comp sales grew 4.2%. Comp sales for U.S. stores increased 5.1% for the fourth quarter and 4.1% for the year. Results beat analysts' expectations.

CEO Robert Niblock said that they were well positioned to capitalize on a favorable macroeconomic backdrop for home improvement by expanding customer reach and developing capabilities to anticipate and support customer needs.

Lowe's promoted Jocelyn Wong to chief marketing officer; she succeeds Marci Grebstein, who left the company. Wong was most recently senior vice president and general merchandising manager for the seasonal business. She'll report to Michael McDermott, chief customer officer. Wong was senior vice president and chief marketing officer at Family Dollar before joining Lowe's in 2015.

WALMART

Q4 sales rose 1.0% to $130.9 billion, and comp store sales rose 1.8%, exceeding expectations. Net sales at WalMart U.S. rose 2.8% to $83.7 billion. WM International net sales dropped 5.1% to $31 billion. However, net profits dropped 17.9% and full year profits fell 7.2% due to heavy investment spending and a strong dollar.

Ten out of 11 markets posted positive comp store sales increases. Sales at Sam's Club were up 1% to $14.9 billion.

Buy online, pick up in store grew 27% during the holidays. Ecommerce sales grew 29%. CEO Doug McMillon said that they are now the second-largest U.S. online retailer by revenue. They now have more than 35 million SKUs on Walmart.com.

WM posted three consecutive quarters of positive comp store sales in fiscal 2017. They are in the process of upgrading their U.S. stores, and expect capital expenditures to be about $11 billion in fiscal 2018.

Walmart is adjusting their purchasing so that one buyer will be able to purchase product for both stores and online. Previously the supplier would need to work with separate buyers if they wanted their products to be available on both platforms. Walmart says it is part of their drive to make sure the full assortment of products offered in stores is available on their website. Walmart held a two-day supplier conference to discuss their plans with about 4,000 suppliers at their headquarters in Rogers, Arkansas. Suppliers that have products that are only meant for the website will continue to work with the Walmart.com buying team.

Walmart acquired online outdoor retailer Moosejaw, which carries top brand such as Marmot and Patagonia, for about $51 million. In addition to its online presence, Moosejaw also has 10 store locations. Moosejaw will continue to run as a standalone brand, with CEO Eoin Comerford and his team based in Michigan.

SEARS

Sears had a dismal fourth quarter, with total revenue dropping 16% to $6.1 billion and comp store sales falling 10.3%, with an 8.0% drop at Kmart and a 12.3% decline at Sears. Despite warnings by many analysts and industry experts that Sears cannot survive, CEO Eddie Lampert continues to remain upbeat.

Sears announced a comprehensive restructuring that will cut at least $1 billion in operating costs annually. The plan involves reducing corporate overhead, closer integration and consolidation of the Sears and Kmart operations and improving their merchandising, supply chain and inventory management. Some of the $1 billion in savings will come from the previously announced 150 Sears and Kmart store closings, with more closings likely. Sears also plans to reduce their outstanding debt and pension obligations of $1.5 billion this year.

Sears plans to use data analytics to optimize product assortment at Sears and Kmart stores. They hope to be able to select products that better meet the needs of their "Best Members" and focus on profitable, high return "Best Categories."

Sears sold five Sears department stores and two Sears Auto Centers to mall owner CBL & Associates for $72.5 million. Sears will lease back the space for roughly $5.1 million. CBL can terminate the leases at any time except the busy holiday period of November through January. Sears has been selling assets to raise money to fund operations.

ACE HARDWARE

Q4 revenue rose 5.8% to $1.2 billion and full year revenues rose 1.6% to $5.1 billion. Wholesale revenues rose 1.5% to $4.9 billion. The approximately 3,000 Ace retailers who share daily retail sales data reported a 4.4% increase in retail comp store sales during the fourth quarter. Sales were driven by increases in customer count and average transaction size. Comp store sales at those stores were up 2.5% for the full year. Ace reported a record $157.9 million in patronage dividends (a form of profit sharing), driven by sales growth, 152 new domestic stores and "hard work by the entire Ace team." Outdoor living and lawn and garden were the fastest growing categories.

Revenues from Ace Retail Holdings, which is the Westlake Ace Hardware chain, rose 7.7% to $64.4 million in the fourth quarter.

Ace plans to expand their redistribution center in Suffolk, Virginia, which is their East Coast hub for receiving imported merchandise through the Port of Virginia. The expansion will help speed up product distribution to 10 of Ace Hardware's 14 retail support centers that serve retail stores as far as Texas, New York and Florida. The expansion will add 138,000 square feet to the existing 336,000-square-foot facility that opened in 2012. Construction should be finished by November.

W.W. GRAINGER

Grainger will stop reporting monthly sales results and instead begin hosting live quarterly conference calls beginning with the release of first quarter 2017 results scheduled for April 18, 2017.

Grainger introduced the Knowledge Center by Grainger. The online resource center housed on their website is designed to provide insights and information to customers who are looking for ways to save time and money, while increasing productivity. The Knowledge Center contains articles and information from Grainger and third-party professionals who provide perspectives on the latest trends affecting customers in industries such as manufacturing, healthcare and commercial services. Key topics covered include inventory management, facility maintenance, emergency preparedness and regulatory compliance, among others. The Knowledge Center will be updated daily and include a mix of articles, videos, infographics, webinars, white papers and e-books.

AMAZON

Q4 sales rose 22% to $43.74 billion, below analysts expectations. Amazon said that fluctuations in foreign currency contributed to the results. Analysts note that while low cost and fast delivery are fundamental parts of Amazon's consumer appeal, they also eat into profits. Amazon Web Services (AWS) continued to grow, with Q4 sales rising 47% to $3.54 billion.

For the full year, Amazon's net sales rose 27% to $136.0 billion. Prime members were responsible for much of the increase. Prime members can now choose from more than 50 million items with free two-day shipping, up 73% from 2015, according to CEO Jeff Bezos. Prime Now added 18 new cities in 2016, which means millions more members can get one and two hour delivery.

Amazon expects net sales in the first quarter of 2017 between $33.25 and $35.75 billion, slightly below analysts' expectations.

Amazon added a net of 26 new warehouses in 2016, compared to 14 in 2015.

Amazon quietly rolled back the threshold for free shipping from $49 to $35 (or $25, if the order contains $25 or more in books) to be competitive with Walmart, which recently announced free two-day shipping for orders of $35 or more. Amazon raised their free shipping threshold to $49 a year ago, presumably to grow Prime membership, as Prime members get free shipping with no minimum order.

Amazon offered an $8.62 discount on all purchases of $50 or more after they earned a score of 86.27 in this year's Harris Annual Corporate Reputation Poll. They ranked number one in the poll for the second consecutive year, with a score that was a record high in the 18 years the poll has been taken. The Harris Poll surveys more than 23,000 Americans on topics including products and services, emotional appeal and financial performance.

A spokesperson for Amazon refused to comment on persistent rumors that Amazon plans to buy a large physical retailer. Amazon now has seven college campus stores, and has three bigger book stores up and running, with plans to open five more. Amazon can certainly afford to buy a retailer if they want to; they have $20 billion in cash and a market value close to $400 billion. Some analysts point to struggling Macy's, J.CPenney or Sears; others argue that Dollar General would help Amazon increase its presence in rural markets where there would be less competition from other large chains.

Amazon is contemplating the concept of equipping their delivery drones with parachutes, so they could float packages down to the ground in situations where landing could be tricky. The potential plans are outlined in a new patent. Landing a drone takes more time and energy than keeping it in the air, according to the patent application. Amazon's Super Bowl ad promised drone deliveries would start "soon."

MARKET TRENDS

LABOR FORCE PARTICIPATION DROPS

A lower percentage of the population participates in the labor force today compared to a decade ago, according to an analysis by Barron's. Looking at the civilian population ages 16 to 64, ten years ago, in January 2007, 75.7% of them were in the labor force, which means they were actively employed or looking for a job. By January 2017 the participation rate of 16 to 64 year olds had fallen to 73.2%. If the participation rate had remained the same, there would be 164.8 million people in the labor force today rather than the current 159.7 million, a difference of

5.1 million. That's one reason why jobs are now harder to fill.

WHAT HOMEBUYERS WANT

Homebuyers today want large, open floor plans, something that few existing homes on the market provide, according to a survey from the National Association of Home Builders (NAHB). While more than half (51%) of buyers want properties larger than 2,000 square feet, just 41% of existing homes meet that criteria, compared to 70% of new single-family homes. The survey also found that 44% of buyers want more than two bathrooms, something just 31% of existing homes have, but 68% of new properties offer. In addition, 38% of buyers want partially open kitchen-to-family room transitions; only 30% of builders offer that option. Most builders (54%) design completely open plans linking the kitchen and family room; only 32% of buyers want a totally open plan.

AN END TO HOME PHONES?

Amazon Echo and Google Home are both exploring technology that will make it possible for people to make and receive phone calls through their home hubs. Amazon Echo could use a voice-over-internet protocol technology or partner with Microsoft to use Skype; Microsoft and Amazon already have a strong partnership. Google already has internet connected calling tools, Google Voice and Google Fiber. Technology analysts say that one of these home assistants could easily soon replace the home phone. Analysts estimate about 24 million home assistants will be sold this year.

MIXED-REALITY TECHNOLOGY

Microsoft's HoloLens technology allows users to see holograms, which are composed entirely of light, in the physical world around them. Global Construction says that mixed-reality technology has several implications for construction. By using mixed reality 3D models, people can walk around and explore the design in real 3D without needing an expert to guide them. With mixed reality, the user controls the "mix" and adjusts it according to task requirements. The ability to share 3D holograms with remote participants makes communication and collaboration easier. Almost every construction project is unique, site-specific and labor intensive; mixed reality allows construction teams to create the project as it will be built in the actual physical environment, allowing people to "walk" through their project, identifying and solving potential problems before actual construction begins.

SOME PEOPLE HATE SHOPPING

One-third of 6,000 consumers surveyed by Capgemini Consulting would rather clean dishes than visit a retail store. The report noted that consumers now expect the retail store to replicate what they experience online, from expecting goods to be in stock to being able to choose from multiple delivery options. A Tampa technology firm, Mad Mobile, has developed a technology called Concierge that gives sales associates instant access to product and customer data. Associates know the customer's style preferences, what they've bought in the past, what's in stock at their own store and what's available at other stores. Associates can alert customers about new products they might like and set them aside or have them delivered. Books-A-Million, with 260 stores in 32 states, was an early adopter of the technology. The system is also used by Talbots.

OMNICHANNEL CHALLENGES

As omnichannel retailing continues to mature, retailers' attention has shifted to execution and profitability, according to CEO Viewpoint 2017 from JDA Software Group and PwC. Execution continues to lag in areas of order fulfillment. Profitability is also still a challenge, with only 10% of companies able to make a profit while fulfilling omnichannel demand. Similarly, only 12% of CEOs surveyed, down from 19% in 2014, say their company provides a seamless shopping experience across channels. These retailers are finding their omnichannel offerings to be too complex or expensive and are choosing to scale back, the study reported.

CEOs are increasing their investment in buy online, pick up in-store (BOPIS), with 51% of survey respondents saying they offer or plan to offer BOPIS in the next 12 months – up from 47% in 2016. BOPIS has picked up steam in the past year with 48% of retail CEOs investing in this service or planning to in the next 12 months.

CEOs are decreasing investments in fulfillment options that are becoming costlier and less profitable. These include same day delivery (offered by 33%, down from 43% in 2016), and providing specific delivery time slots (offered by 27% vs. 48% in 2016). The rising costs of order fulfillment are also pushing executives to make changes. In the next 12 months, 57% plan to increase charges for online orders, 62% plan to increase minimum order thresholds for free standard home delivery and 55% plan to raise the minimum order value for BOPIS.