MarketBriefing

2017 Issue 5 News from the month of April 2017

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U.S. ECONOMY

EXCHANGE RATES FRIDAY APRIL 28, 2017

Euro	1 Euro = $1.090	$1.00 = 0.917 Euros
Canadian Dollar	1 CAD = $0.732	$1.00 = 1.365 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 111.448 Yen
Chinese Yuan	1 Yuan = $0.145	$1.00 = 6.894 Yuan
Mexican Peso	1 Peso = $0.053	$1.00 = 18.856 Pesos

MARKET WATCH FRIDAY APRIL 28, 2017

DOW	20,941	1.3%
NASDAQ	6,048	2.3%
S&P 500	2,384	0.9%

Strong corporate earnings kept all three indexes in the black for the month of April despite weak GDP news and geopolitical unrest. The tech-heavy NASDAQ has now recorded six consecutive monthly gains for the first time in more than four years. The DOW rose 1.3% to close at 20,941, the NASDAQ rose 2.3% to close at 6,048 and the S&P, the index most closely followed by economists, rose 0.9% to close at 2,384.

CONSUMER CONFIDENCE FALLS TO 120.3

The New York-based Conference Board's Consumer Confidence Index dropped to 120.3 in April after rising to 124.9 in March. The Present Situation Index fell from 143.9 to 140.6 and the Expectations Index declined to 106.7 after rising to 112.3 in March. The Conference Board said that despite the decline, consumers remain confident that the economy will continue to expand in the months ahead. Economists say a level of 90 indicates that the economy is on solid footing and a level of 100 or more indicates growth. Analysts caution that the real driver behind consumer spending is income growth and that labor market trends are a more accurate predictor of consumer behavior.

CONSUMER SPENDING FLAT

Consumer spending was unchanged for the second consecutive month. Consumer spending rose a modest 0.2% in January. Incomes grew a modest 0.2% after stronger increases of 0.3% in February and 0.4% in January. The combination of weak spending growth and stronger income growth pushed the saving rate to 5.9% of after-tax income in March, up from 5.7% in February. A key inflation gauge closely watched by the Federal Reserve showed a 0.2% decline in March while core inflation, which excludes food and energy, fell 0.1%, the first decline in core inflation since September 2001. For the 12 months ending in March, core inflation has risen 1.6%, down from a 1.8% increase in February. Core inflation is now running further behind the Fed's goal of 2%. Consumer spending is closely watched by economists because it accounts for 70% of U.S. economic activity.

CONSUMER PRICES FALL 0.3%

The Consumer Price Index (CPI) fell 0.3% in March after rising 0.1% in February, the first monthly decline in 13 months. The CPI was up 2.4% from March 2016. Core inflation, which excludes food and energy, fell 0.1% in March but was up 2.0% year-over-year. It was the first monthly decline for core prices since January 2010 and the steepest drop for overall prices since January 2015. Core inflation has been in a range between 2.1% and 2.3% since December 2015.

UNEMPLOYMENT FALLS TO 4.4%

The unemployment rate fell to a decade-low of 4.4% in April after falling to 4.5% in March and the economy added 211,000 new jobs after adding a downwardly revised 79,000 jobs in March. After two months of declines, the retail sector added 6,300 jobs in March. However, roughly 3,500 stores are expected to close over the next few months with retail giants including Macy's and JCPenney shuttering locations. Employment in construction was relatively unchanged. Wage growth slowed in April with average hourly earnings increasing by 2.5% year-on-year, down from 2.6% in March. Fed Chair Janet Yellen has said that 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 0.7%

Durable goods orders rose 0.7% in March after jumping an upwardly revised 2.3% in February. Economists had expected orders to rise 1.2%. The increase was due in part to a 2.4% increase in orders for transportation equipment. Orders excluding transportation, which can be a highly volatile category, dropped 0.2% in March after climbing 0.7% in February. Economists had expected orders ex transportation to rise 0.4%. Orders for non-defense capital goods excluding aircraft, which are seen as a proxy for business spending, rose 0.2% after rising 0.1% in February. Shipments in the same category, which factor into GDP, rose 0.4% in March after rising 1.1% in February. So far this year total durable goods orders are up 3.4% compared to the first three months of 2016. The durable goods report is often both volatile and subject to sharp revisions.

CHICAGO PMI RISES TO 58.3

The Chicago Purchasing Managers' index (PMI) rose to 58.3 in April from 57.7 in March, hitting its highest level since January 2015 and beating expectations for a decline to 56.5. It was the third consecutive monthly increase for the PMI. New orders increased 5.5 points to a near three-year high. Order backlogs contracted for the fifth consecutive month, although at a much faster rate than in recent months. Demand for labor picked up, with the employment indicator moving back into positive territory. Prices Paid rose nearly 14% year-over-year and continues to trend upwards, although the rate of increase has slowed recently. April's special question asked firms about the impact of expected increases in interest rates over the next six months. More than half of respondents expected to remain unaffected, with only 22% expecting a negative impact.

WHOLESALE PRICES FALL 0.1%

The Producer Price Index (PPI) fell 0.1% in March after rising 0.3% in February and 0.6% in January. It was the first drop in the PPI since last August. Wholesale prices were up 2.3% from March 2016, the sharpest annual increase in five years. Excluding energy, food and services for wholesaling and retailing, producer prices were unchanged in March and up just 1.6% over the past year. The PPI for inputs to construction was up 3.5% year-over-year in March. Prices slid in March due to falling energy prices, which dropped 2.9%, including an 8.3% decline in gasoline. Steady consumer demand and more stable commodity costs are expected to keep producer prices moving upwards; the strong dollar could moderate increases.

Q1 GDP GROWS 0.7%

GDP grew just 0.7% in the first quarter, down from 2.1% growth in the fourth quarter of 2016, according to the Commerce Department's first estimate. Weakness was primarily centered on a much slower pace of consumer spending, which grew just 0.3% in the first quarter after advancing a robust 3.5% in the fourth quarter of last year. There were also downturns in private inventory investment and state and local government spending. It was the weakest annualized pace of growth since the fourth quarter of 2009, and below expectations of 1.2% growth. However, the milder-than-usual winter that blanketed much of the country during the first two months of the year resulted in a big drop in utility spending. Consumers seemed to have banked their savings, as the saving rate has been steadily rising. On a positive front, business fixed investment (BFI) was up a strong 9.4%. While weak, Q1 growth was largely as expected, and analysts expect a rebound in the second quarter. First quarter GDP is traditionally hampered by residential seasonality items and other one-time items, according to Wells Fargo. Since 2000, Q1 GDP has averaged 1.0%, followed by an average growth of 2.6% in the second quarter. Many analysts are looking for a second quarter surge to growth of 3% or better and they are forecasting growth for the entire year of around 2.3%, up from 1.6% GDP growth in 2016, which was the poorest showing in five years. Analysts believe the bounce back in the current quarter will be helped by job gains, rising wages and increased consumer confidence.

JOB OPENINGS LITTLE CHANGED

The number of job openings was little changed at 5.7 million in February, up slightly from a downwardly revised 5.625 million in January, according to the latest Jobs Opening and Labor Turnover Survey (JOLTS). The job openings rate was 3.8%. Over the month, hires (5.3 million) and separations (5.1 million) were also little changed. The total separations rate was 3.5%. The hires rate was 3.6%. There were 5.1 million total separations in February, little changed from January. Total separations, or turnover, includes quits, layoffs and discharges and other separations. The number of quits was essentially unchanged at 3.1 million in February. The quits rate was 2.1%. There were 1.6 million layoffs and discharges in February, little changed from January, with a discharge rate of 1.1%. When the number of hires exceeds the number of separations, employment rises, even if the hires level is steady or declining. On the other hand, when the number of hires is less than the number of separations, employment declines, even if the hires level is steady or rising. Over the 12 months ending in February, hires totaled 63.0 million and separations totaled 60.6 million, yielding a net employment gain of 2.4 million. These totals include workers who may have been hired and separated more than once during the year. A federal hiring freeze was implemented in late January, and in February the gross number of workers hired fell to 33,000, about 20% below the prior 12-month average. The share of workers leaving their job voluntarily is above the highs of last cycle and indicates that workers feel increasingly confident about their job prospects. 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.

PRESIDENT RELEASES PROPOSED TAX PLAN

President Trump released a one-page summary of his proposed overhaul of the tax system. His plan would reduce the current seven tax brackets to three: 10%, 25% and 35%, with the top rate dropping to 35%. The release did not say which income ranges would apply to each bracket. The plan proposes to double the standard deduction, and eliminate all other deductions except for mortgage interest and charitable contributions. Trump's plan would also lower corporate tax rates to 15% from the current 35%. Analysts say the plan would almost certainly ensure that no one pays a higher rate than they do now on the same income. However, the elimination of most deductions could nudge some wealthier Americans into higher brackets. The Tax Policy Center has estimated the top 1% of households would see a 14% increase in after-tax income, while low and middle-class Americans would see gains of just 1.2% to 1.8%.

POLICY REVERSALS ON CHINA AND THE FED

President Trump appeared to reverse his positions on several key campaign pledges, telling the *Wall Street Journal* that China is no longer a currency manipulator, that he respects Janet Yellen and perhaps could nominate her to another term leading the Fed and that NATO is no longer obsolete since it is fighting terrorism. In the same interview, Trump's comments that the dollar was too strong sent the dollar lower and gold higher; Treasury Secretary Steven Mnuchin quickly released a statement saying that President Trump was in no way trying to "talk down" the dollar. Toward the end of the month the President agreed not to include funding for the proposed border wall in the 11th-hour bill needed to fund the government and keep it running. Analysts say President Trump is demonstrating flexibility and coming to grips with the complexities of actually governing the country.

HOUSING & CONSTRUCTION

HOUSING STARTS FALL 6.8%

Housing starts fell 6.8% in March to a seasonally adjusted annual rate of 1.22 million units after rising to 1.28 million units in February. **Single-family starts dropped 6.2%** to an annual rate of 821,000 units after rising to 872,000 units in February. Multifamily starts dropped 7.9% to an annual pace of 394,000 units after falling to 416,000 units in February. **Regional starts were mixed.** Starts rose 12.9% in the Northeast. Starts fell 2.9% in the South, 16% in the West and 16.2% in the Midwest.

BUILDING PERMITS RISE 3.6%

Building permits rose 3.6% in March to a seasonally adjusted annual rate of 1.26 million units after falling to 1.21 million units in February. **Single-family permits fell 1.1% in March** to an annual rate of 823,000 after rising to 832,000 units in February. Multifamily permits rose 13.8% to 437,000 units after falling to 381,000 units in February. **Regional permit issuance was mixed.** Permits rose 16.7% in the West, 15.5% in the Northeast and 6% in the South. Permits fell 22% in the Midwest. Permits have been above the one million level for nineteen consecutive months, the longest stretch in seven years.

NEW-HOME SALES RISE 5.8%

Sales of newly built, single-family homes rose 5.8% in March to a seasonally adjusted annual rate of 621,000 units. It was the third consecutive monthly increase in new home sales, and the second-highest monthly sales since 2008. The inventory of new homes for sale rose slightly to 268,000 in March, which is a 5.2-month supply at the current sales pace, and the third consecutive month inventory has increased. The median sales price of new houses sold was $315,100. Regional sales were mixed. New home sales increased 25.8% in the Northeast, 16.7% in the West and 1.6% in the South. Sales fell 4.5% in the Midwest. NAHB commented that the spring home buying season was off to a good start, but builders are concerned that ongoing price increases in housing materials will hurt affordability. Of particular concern was a proposal from the Department of Commerce to impose a hefty tariff on Canadian lumber. 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 4.4%

Existing home sales rose 4.4% in March to a seasonally adjusted annual rate of 5.71 million from a downwardly revised 5.47 million in February. March sales were 5.9% above March 2016 and the strongest monthly sales pace since February 2007. Total housing inventory at the end of March rose 5.8% to 1.83 million existing homes for sale, 6.6% below March 2016. Total housing inventory has fallen year-over-year for 22 consecutive months. Unsold inventory is at a 3.8-month supply at the current sales pace, unchanged from February. Regional sales were mixed. Sales rose 10.1% in the Northeast, 9.2% in the Midwest and 3.4% in the South. Existing home sales dropped 1.6% in the West. Wells Fargo noted that the relatively warm January and February may have pushed pending home sales earlier into the year and that therefore there could be risks to sales in the second quarter. Heading into the key spring season inventories remain exceptionally lean, and the median price of an existing home is up 6.8% from March 2016.

BUILDER CONFIDENCE FALLS TO 68

Builder confidence fell three points to 68 in March after rising to an unusually high reading of 71 in February, according to the HMI (National Association of Home Builders/Wells Fargo Housing Market Index). All three HMI components posted losses in April but remain at healthy levels. The component gauging current sales condition fell three points to 74, the index charting sales expectations over the next six months fell three points to 75 and the component measuring buyer traffic dropped one point to 52. The three-month moving averages for HMI scores rose one point in the West to 77 and one point in the Midwest to 68. The South held steady at 68, while the Northeast fell two points to 46. It was the twenty-second consecutive month the HMI remained above 50. Builders remain optimistic but face ongoing increases in building materials prices as well as hefty regulatory costs, according to the NAHB.

REMODELING INDEX RISES TO 58

The National Association of Home Builders' (NAHB) Remodeling Market Index (RMI) rose to 58 in the first quarter of 2017, an increase of five points from the fourth quarter of 2016 and the highest reading since 2015. The component measuring current market conditions rose five points to 58 and the index measuring future market conditions also reached 58, equaling the highest reading during 2016. Calls for bids rose significantly from 49 to 59, and the amount of work committed grew from 50 to 58. The backlog of remodeling jobs increased from 55 to 62 and appointments for proposals held steady at 54. The NAHB said that while the RMI saw broad-based improvements, remodelers face challenges meeting demand as the labor shortage continues and costs for materials, such as lumber, are rising.

MORTGAGE RATES FALL TO 4.03%

The 30-year mortgage rate fell to 4.03% at the end of April from 4.14% the end of March. In April last year 30-year rates averaged 3.66%. Mortgage rates have been a bit volatile of late, swinging along with yields on the 10-Year Treasury Bond.

CANADIAN LUMBER DUTY IMPOSED

On April 25, the Department of Commerce levied a 19.88% duty rate against Canadian softwood lumber exports to the United States. Due to "special circumstances," the duties will be retroactive 90 days from the date that the rates are officially published in the Federal Register, likely back to the beginning of February. Five Canadian lumber producing companies will face specific duty rates, the highest of which (24.12%) will be levied on West Fraser Timber, according to *Random Lengths.* NAHB estimates that the annual impact of the 19.88% duty, if in effect throughout 2017, would be a loss of $498.3 million in wages and salaries for U.S. workers, $350.2 million in taxes and other revenue for governments in the U.S. and 8,241 full-time U.S. jobs.

POWER TOOL INDUSTRY

ROBERT BOSCH

Bosch introduced a new app that offers end-to-end project management for users of the Bosch Blaze GLM 50 C and Bosch GLM 100 C laser measures. The app reportedly speeds up and improves the measuring process, improves precision, enhances the organization and reliability of project documents, reduces information transfer mistakes, stores project images with measurements and notes and creates floorplans. Data can be transferred to an iOS or Android smart device.

STANLEY BLACK & DECKER

First quarter sales rose 5% to $2.8 billion, as positive organic growth (+5%) and acquisitions (+3%) more than offset currency (-1%) and divestitures (-2%). Tools and Storage net sales rose 9%, with 6% of the increase from volume and 4% from acquisitions, offset somewhat by unfavorable currency (-1%). Sales were positive in all regions, with North America up 8%. New products, including gains from DeWalt's FlexVolt system, and consistently strong commercial execution, helped fuel the gains in North America.

In early March SB&D upgraded their 2017 earnings guidance based on the sale of the majority of their Mechanical Security business and the purchase of the Craftsman brand from Sears and the Irwin and Lenox brands from Newell-Rubbermaid. They have now raised their guidance again as they expect even stronger full year results, which they attribute primarily to an improved outlook for their industrial businesses.

They will continue to focus on integrating the Newell Tools business and building the Craftsman brand, while continuing to make balanced investments to support organic growth.

From their Q1 Conference Call with Analysts:

Their plans for a new state-of-the-art U.S. manufacturing plant for Craftsman are beginning to take shape; it is possible they may build more than one facility. Overall customer reaction to the acquisition has been extremely enthusiastic, and many customers are asking about carrying Craftsman products.

They spoke to more than 1,000 customers in the first 48 hours after they began integrating Newell Tools' Lenox and Irwin brands and the feedback was universally very positive.

For Newell Tools they are focused on integrating employees, suppliers and customers into their existing operations. They are also focusing on achieving the substantial cost synergies they already identified. In addition, they are investigating new distribution channels for Lenox and Irwin, including previously underserved markets where SB&D has a strong presence.

FlexVolt met their expectations for the quarter, and they expect the momentum to be maintained and bolstered by their commercial teams launch strategy, which has a well-crafted plan of promotions and new FlexVolt tool and accessory SKUs that will be regularly introduced over the next few years.

They are expecting mid-single-digit organic growth for Tools & Storage as construction markets in the U.S. are healthy and markets in Europe are stable.

Profits in the Tools segment are very volume driven, and the robust growth in volume has given them a lot of freedom inside their supply chain. It's driven great productivity and major quality improvements that have lowered their warranty return rates. The volume growth they've had has been very profitable.

There is incredible demand for Craftsman products across their U.S. customer base in particular. They believe their absolute share today is about 20% of the global market, which means 80% of the market is still available. Craftsman represents close to two billion dollars in the marketplace today and has a loyal installed customer base that would very much prefer to be able to find Craftsman in locations other than Sears.

While they are very busy integrating the businesses they bought, the M&A pipeline is very robust and there are some very interesting strategic assets they are thinking about. They may do some very small acquisitions this year, but will more likely focus on next year, and probably outside of the Tools segment.

They are estimating a combined total of currency and commodity inflation of $100 to $105 million.

CFO Jim Loree commented that the new administration seems to be backing off the idea of a border tax and now understands that it would not really be beneficial to the U.S. or many U.S. companies. However, their commitment to U.S. manufacturing really has nothing to do with the possibility of a VAT tax, instead it reflects the fact that they are able to cost effectively manufacture in the U.S. due to today's manufacturing technology. They want to increase the overall percentage of their tools they manufacture in the U.S. , particularly Craftsman.

They are extremely happy about FlexVolt. Half of their 8% first quarter growth in North America can be attributed to FlexVolt. Their retail execution of FlexVolt is now more than double-digits ahead of what the customer expectations work suggested. FlexVolt has been adopted much more quickly than is typical with a new power tool platform. The average user rating of FlexVolt is 4.9 out of 5. They are very active in the development of 20, 60 and even 120 volt tools going forward. They are now planning for a more rapid ramp up than $100 million a year over ten years.

They have ten innovation teams up and running and every business in the company has at least one team dedicated to discovering breakthrough innovations.

Other News:

A lawsuit filed by iRobot accuses Hoover and Stanley Black & Decker of patent infringement covering robotic vacuums. The complaint also named Shenzhen Silver Star Intelligent Technology and Suzhou Real Power. The company is looking to block the further use of its robotic vacuum inventions.

TTI/TECHTRONIC INDUSTRIES

Milwaukee Tool grew sales 21% in 2016 and Joe Galli, CEO of Milwaukee's parent company, Techtronic Industries, says that Milwaukee plans to increase revenue by 20% annually over at least the next five years. That would mean about $6 billion in sales by 2021, although according to the company, their mission is to reach $5 billion by 2020. Galli believes the markets served by Milwaukee, which targets professionals, and Ryobi, their DIY brand, could more than double over the five years, reaching $36 billion. He believes that TTI will drive much of that increase, much as Apple did with iPhone and iPad. Galli said that the replacement cycle for power tools has decreased from around eight years to just three years, which has helped boost the market. Galli's biggest worry at the moment is not being able to hire enough engineers to develop the products the company has ideas for, the product pipeline is so stacked. TTI plans to hire 522 new employees from college campuses alone in 2017, a 28% increase over 2016. Galli said Milwaukee is growing in a number of geographies, with sales up 20.6% in North America, 21.3% in Europe, the Middle East and Africa and 24.7% in the rest of the world in 2016.

Milwaukee's Phase II expansion at their Greenwood, Wisconsin plant will include the construction of an on-site quality assurance lab, funded in part by Community Development Block Grants. Eventually the Phase II expansion will bring an additional 75 jobs to Greenwood. Milwaukee kicked in $13,385 and the city and the county pitched in another $150,000 for construction.

Milwaukee Tool has invested $47 million into U.S. operations in the last 5 years and is continuing to grow their domestic production at their three manufacturing facilities located in Greenwood and Jackson, Mississippi, and Mukwonago, Wisconsin. According to Milwaukee Tool President Steve Richman their U.S. production provides critical components for their global manufacturing footprint. If the U.S. enacts some sort of border tax they have China ready to supply the rest of the world and the U.S. able to focus on local production.

TRIMBLE

Trimble is changing the reporting of their segment financial results to better reflect the company's customer base and end markets. Beginning with first quarter results, announced the end of April, Trimble will report revenue and operating income based on four operating segments: Buildings and Infrastructure, Geospatial, Resources and Utilities and Transportation. The Buildings and Infrastructure segment primarily serves customers working in architecture, engineering, construction and operations and maintenance. Under the new structure the segment had 2016 full-year revenue of $743 million.

First quarter revenue rose 5.3% to $613.9 million, beating analysts expectations. That translated to underlying core organic growth of more than 6.5%, after allowing for acquisition, divestiture and exchange rate effects. It was the highest growth rate since 2014.

Buildings and Infrastructure segment revenue was up 8% year-over-year, with currency translation subtracting about 2% and acquisitions and divestitures providing a minor positive effect. Across the board from architecture and design to their estimating design and engineering solutions for MEP and structural trades, all businesses performed well in the quarter, with concentrated strength in North America and Europe.

RETAIL

RETAIL SALES FALL 0.2%

Retail sales fell a seasonally adjusted 0.2% in March after falling a downwardly revised 0.3% in February. However, retail sales have risen 5.2% over the past 12 months. Core retail sales, which exclude auto sales, gas and building materials and factor into GDP, rose 0.5% in March after dropping a downwardly revised 0.2% in February. Building materials sales dropped 1.5% in March. Sales at non-store retailers, which include internet sales as well as catalog sales, rose 0.6% in March and were up 11.4% over the past 12 months. Retail sales account for one-third of all spending, with services making up the other two-thirds.

CUSTOMER SATISFACTION SURVEY

Both The Home Depot and Lowe's increased their customer satisfaction scores, according to the American Customer Satisfaction Index's (ASCI) 2016 retail report. Customer satisfaction grew 10% for THD, with a score of 80 out of 100. Satisfaction grew 7% for Lowe's to a score of 79. ASCI attributed some of THD's improvement to a successful integration of ecommerce and brick and mortar stores. Both retailers were part of ACSI's specialty retail stores category, which boosted customer satisfaction overall by 3.9%. The overall category winner was Costco. The overall retail sector reversed two years of declining scores and gained 5% to an all-time high of 78.3.

WALMART TOPS NPD GROUP STUDY

Walmart was the number one place where people shop or ate last year, according to a study from NPD Group, with 95% of consumers making at least one purchase from Walmart. McDonald's was second, at 80%, and Target was third, at 84%. Amazon was tied for 19th with Dunkin Donuts; both companies reached 42% of consumers.

ACE TOPS TEMKIN RATINGS

Ace delivered the best customer experience in the retail industry, according to the 2017 Temkin Experience Ratings, an annual customer experience ranking of companies based on a survey of 10,000 U.S. consumers. Ace tied with BJs and QVC for the top spot out of the 28 retailers included in this year's ratings. True Value and Amazon were also in the Top Ten, with both Lowe's and Home Depot right behind. Walmart and Sears were near the bottom of the list.

RETAIL STORE JOB CUTS ACCELERATE

Retailers lost a total of 60,600 jobs in February and March, the largest two-month decline since December 2009. Retail analysts say that retail job losses are due at least in part to changing consumer buying habits. As the retail climate changes, retailers that are not prepared to deal with omnichannel consumers are facing dropping sales and squeezed profits, leading to an increase in job cuts, store closings and bankruptcy filings. Retail jobs now account for 10.9% of jobs, compared with 11.6% in 2000, according to research firm The Retail Economist. Retail wages are not keeping pace, having risen just 1.1% over the last year compared to a 2.7% average increase for all U.S. workers. Stores are also increasingly adopting technology that reduces the need for employees, like shopping kiosks and iPads that allow shoppers to buy online while they are in the store.

THE HOME DEPOT

A recent article in HBS Dealer reported that THD wants to reduce consumers' electricity costs by more than $2.8 billion by 2020. They are also committed to cutting consumers' greenhouse gas emissions by 20 million metric tons. They plan to do that by sourcing and selling the right mix of products, including Energy Star certified products. The Home Depot says they offer more than 20,000 Energy Star products in stores and online. They were awarded the EPA's Energy Star Retail Partner of the Year award for the 10th consecutive year, as well as the EPA's Sustained Excellence distinction, for their continued leadership in offering the latest innovations in energy efficient products. THD is also committed to reducing store energy use by an additional 20% from 2010 levels and procuring more electricity from onsite fuel cells, solar installs and offsite solar and wind developments.

LOWE'S

Lowe's launched Lowe's Vision, their new in-store navigation app that is reportedly the first retail application of indoor mapping using augmented reality. The app uses Google's augmented reality technology called Tango, and is designed to simplify the home improvement shopping experience. Customers visiting stores in Sunnyvale, California and Lynwood, Washington will be able to use Tango-enabled smartphones to easily search for products, add them to a shopping list and locate the product within the store using augmented reality. The app resulted from work done in Lowe's Innovation Labs. Lowe's says their research shows that it pays off for both customers and employees when it's easier for customers to find products in store. Lowe's intends to build a portfolio of augmented reality offerings that meet the needs of the evolving customer.

WALMART

Walmart is offering a discount to customers who order online and pick up their order in a Walmart store. Items must be available online only to qualify. Walmart says more than one million products will qualify for the discount by June. No percentage of discount was announced, but some examples cited include: An infant car seat that was priced at $148.05 would be discounted $7.40, and a Lego Great Vehicles Ferry priced at $23.99 would have an additional pickup discount of $2.55. Walmart's online sales increased 29% in the fourth quarter, up from a 20.6% increase in the previous period, the third consecutive quarter of gains.

Walmart is rapidly buying up small, hip online retailers that appeal to wealthier shoppers as part of their strategy to be more competitive with Amazon. Thus far Walmart has bought ShoeBuy, outdoor specialty retailer Moosejaw and hip clothing website ModCloth. Walmart says it will allow the retailers to run as separate entities. However, customers of the companies they've bought have taken to social media to express their disappointment and outrage and stating their preference for independent brands. Moosejaw offers upscale outdoor brands like North Face and Patagonia that are not sold by Walmart, and is known for its irreverent marketing and loyal Michigan following.

Walmart submitted a large-scale development plan to the city of Bentonville that describes “Project Maple,” which includes a 1.27 million-square-foot distribution center across the street from the current center in Bentonville. Walmart wants to increase their logistics capabilities and better support distribution needs in the Midwest. Walmart currently has 147 distribution facilities throughout the U.S. which ship about 78% of U.S. store item; the rest are shipped directly from suppliers.

SEARS

Sears increased their cost-saving target for 2017 by $250 million to $1.25 billion. The company named Rob Riecker, an 11-year veteran, as chief financial officer. Riecker is currently controller and head of capital market activities. Sears said it has already achieved $700 million in annualized cost savings after closing stores and other measures. Plus, a special committee formed to evaluate its real estate has received bids of more than $700 million on more than 60 properties. The company is also in talks with lenders on refinancing options for a secured loan facility that matures this year. Sears Holdings Corp. tops the list of retailers that are most vulnerable to defaulting on their debt in the next year, according to S&P Global.

ACE HARDWARE

Ace is restructuring their eastern U.S. distribution network. They’re opening a new 1.1 million-square-foot retail support center in Pennsylvania and closing several other facilities. The transition will take about two years to be complete. Ace intends to grow even more aggressively over the next several years, according to Lori Bossmann, EVP, supply chain, inventory replenishment and retail support. They are striving to be faster and more nimble.

Mark Spanswick is the new president and general manager of Ace Wholesale Holdings, a subsidiary of Ace Hardware. He’s joining the company from a career at W. W. Grainger that spanned 27 years and included stints as VP of mergers, acquisitions and sales integration and most recently regional sales VP. Ace says they want to grow Ace Wholesale Holdings and Spanswick is an ideal choice to help them reach their goals.

TRUE VALUE

David Elliott is the new senior VP, marketing for True Value. Elliott is the former general manager of marketing at New Zealand hardware and home improvement co-op Mitre 10, where True Value President and CEO John Hartmann served as CEO from 2010 to 2013.

W.W. GRAINGER

Sales rose 1.0% in the first quarter to $2.5 billion. CEO DG Macpherson said that first quarter sales fell short of their expectations, primarily due to greater than anticipated response to price cuts in the U.S., which drove up the volume of products sold at more competitive prices. Based on the positive customer response, they are pulling the remaining pricing actions they had scheduled for 2018 into the third quarter of this year, and therefore lowered their sales and earnings guidance for the year. Grainger now expects sales growth of 1% to 4% compared to the 2% to 6% growth previously forecast.

First quarter sales were driven by a 5% increase from volume that was partially offset by a 3% decline in price and a 1% decline from lower sales of seasonal products.

Sales in the U.S. fell 1% compared to the first quarter of 2016, driven by a 4% drop in price and a 1% decline from lower sales of seasonal products, partially offset by a 4% increase in volume. Sales in the Government and Heavy Manufacturing end markets led the sales performance.

Sales in Canada increased 4% in U.S. dollars and 1% in local currency. The increase came from a 4% increase in volume, partially offset by a 2% decline from lower price and a 1% drop from unfavorable holiday timing.

Macpherson highlighted some of the pricing actions they implemented in January and February, including adjusting list prices to make it easier for large customers to consolidate purchases, introducing new online prices on about 450,000 SKUs to drive medium and large non-contract customer acquisition and growth and negotiating large customer contracts with more competitive pricing for infrequently purchased items.

FASTENAL

Raymond James upgraded Fastenal to Outperform, saying that volume growth could reach double digits by the third quarter, driven by onsite rollouts and vending. They also expect lagging margins to slowly improve based on improving pricing.

AMAZON

Q1 sales rose 23% to $35.7 billion. Amazon Web Services (AWS) net sales accounted for $3.7 billion, up from $2.6 billion in the first quarter of 2016. Sales in North America, Amazon's biggest market, rose 23.5% to $20.99 billion. Amazon expects second quarter sales of between $35.25 and $37.75 billion.

Amazon is hosting a three-day gathering in May at their Seattle headquarters in order to persuade some of the world's biggest brands to start shipping products directly to consumers and bypass chains like Walmart and Target. Amazon's point is that companies should start designing products that can be shipped quickly to a consumer rather than focusing on making products stand out on store shelves. Amazon will be trying to persuade big packaged good manufacturers that even though ecommerce is currently a small part of their business it is the future, and being a leader will require a major shift in thinking. Amazon has already persuaded some toy manufacturers to develop packaging that pops open more easily, and now offers thousands of "frustration free" products. Retail analysts point out that Amazon has 300 million shoppers, and can always private label manufacture their own products if brands aren't willing to sell on their marketplace or change and adapt to new needs.

Amazon is delaying the public opening of their first cashier-less convenience store due to technical complications. The store was supposed to open the end of March, but the opening has been delayed indefinitely while Amazon works out the kinks in the technology that automatically charges customers when they leave. Reportedly the store uses cameras, sensors and algorithms to watch customers and track what they pick up, but has been unable to handle more than 20 people at one time. The system has also had trouble keeping tabs on an item if it has been moved from its specific designated spot on the shelf. The technology functions flawlessly when there are a mall number of customers in the store, or when their movements are slow, but for now the store will continue to need employees.

Amazon is rapidly gaining share in the lucrative private label credit card market. According to a Morgan Stanley AlphaWise survey, 23% of adults have an Amazon credit card (co-branded with Chase), tied with Walmart. Plus 13% of those who do not have an Amazon card now said they are "very likely" to get one. And Amazon has recently upped the cash-back bonus that comes with its card.

Amazon introduced Amazon Cash, which provides shoppers with a special barcode redeemable at participating stores like CVS. Customers show the card to the cashier and then add as much cash as they would like to their Amazon account. There are no fees. Amazon Cash is designed to appeal to people who prefer not to use a credit or debit card online.

Amazon successfully made their first drone delivery of a product in the U.S. through their delivery system Amazon Prime Air. Amazon successfully made a delivery in Great Britain in December, but U.S. federal regulations have kept it from public flights here until now. The Prime Air website says that right now it looks like science fiction, but one day seeing Prime Air vehicles will be as normal as seeing mail trucks on the road. Technical and air space regulations still remain hurdles for U.S. drones to deliver packages on a regular basis, but drone delivery has already become a reality in parts of China, with China's second-largest online retailer, JD.com, using drones on a daily basis to make deliveries to four provinces, particularly in rural areas. JD.com reports that everything is going very smoothly.

MARKET TRENDS

LIVING IN A SMART HOME

The smart home concept is a world-wide trend, as evidenced by a recent report from the Asia News Network noting that most consumers don't really understand the concept, and attempting to lay out what a smart home means for construction firms, appliance makers and network providers. According to Asia News:

To be truly smart, a home needs an automated infrastructure that is designed by a builder. The automated home is then filled with smart appliances produced by electronics makers. Then comes the network that connects the smart appliances and allows people to control them remotely. Smart construction involves the control and automation of lighting, heating and air conditioning and the use of biometric technologies such as fingerprint, iris, facial or voice recognition as well as many other features from entertainment to security.

Asia News Network reports that in Korea local construction firms are partnering with mobile carriers to add connectivity, Internet of Things (IoT) and artificial intelligence technologies to homes while they are being built.

While the current 4G network is fast enough for devices to be connected and controlled, the smart homes of the future will be based on the upcoming 5G network, which will connect smart devices at a speed at least 267 time faster than is currently available with less than a one millisecond delay. The 5G network will enable devices to not only save cumulative data in a cloud platform but also capture users' behaviors by analyzing the data and providing smarter and more customized services as devices learn and better understand their users.

Two of the biggest concerns surrounding smart home development are security and compatibility. Many interconnected smart devices could be a treasure-trove for hackers and need enhanced security. On a practical basis, another challenge is the compatibility of smart appliances and devices developed by different companies.

The report suggests that in order to realize a truly smart home, the industry needs global standards and open platforms.

Lastly, price is of course an issue. According to PricewaterhouseCoopers, one of four U.S. internet users currently own a smart home product, however 23% of respondents said they would not consider a smart home product because they are too expensive.

MOBILE SHOPPING STUDY

What's stopping mobile users from making more purchases on their phone? One big reason is that the screens are too small, according to respondents to a PricewaterhouseCoopers study in September 2016. The study compared consumer usage and attitudes in the UK with those in China and the U.S. About one-third of U.S. respondents ages 18 and older said that the screen was too small. About a quarter of respondents said that mobile sites are hard to use; some of that is also attributed to screen size. Connectivity was also an issue; 17% of respondents said they had internet speeds that made using a mobile site challenging. According to eMarketers's latest estimates, about 147.3 million people in the U.S. will use a mobile device to make a purchase this year, which works out to about 55% of all mobile phone users.

PRODUCT REVIEWS MOTIVATE SALES

Fifty-five percent of shoppers start their buying research on Amazon, according to marketing research firm BloomReach, and half of all shoppers say they rely primarily on Amazon for reviews, according to ecommerce analysis firm Market Track. Almost a quarter of shoppers check Amazon even when they are physically standing in a store.

Amazon's reviews rank so highly in part because they are considered the most trustworthy, because Amazon goes to great lengths to root out fake reviews, and also marks and gives more weight to reviews by people who actually bought the product. They've also introduced a new logarithm to give more weight to newer, more helpful reviews. Amazon also requires that any review of a product that the reviewer received for free or at a reduced cost be identified as such.

Going from zero reviews to one positive review increases the rate at which online window-shoppers actually click the "buy" button by 65%, according to Power Reviews, a company that makes ratings and review software. They estimate that 20% of sales are driven by reviews and one-third of online shoppers say they won't buy a product that has not been positively reviewed.

However, research also revealed that only 5% to 10% of customers actually write reviews. First are those who actually love (or hate) a product. Next are people who believe that since they rely on reviews, they should also write them. Finally there are people who are strongly loyal to the retailer or brand and want to help them out. Research also shows that negative reviews can be helpful, and that people are distrustful if all the reviews are good. Profitero, which helps online sites price their products competitively, says that 20 reviews is the magic number.

MILLENNIALS GO DIGITAL EVEN IN STORE

Two-thirds of millennials prefer digital shopping over shopping in physical stores, and many use their mobile phones to do research while they are actually in a store, according to a recent eMarketer study. Millennials and Gen Xers are both predisposed to buy online, with more than 90% of Internet users in both age groups having made a digital purchase in the past year. Millennials are more likely than Gen Xers to research products or make a purchase on their smartphones. Nearly all millennials research products online before they go to a store. And despite a strong presence on social platforms, millennials still respond well to email marketing, with more than half of them listing email as the primary influence behind them making a purchase from a retailer's website.

WORKING FROM HOME

The digital revolution is also revolutionizing how people work, with many more people working several part time jobs instead of a traditional full time job. Amazon recently announced plans to create more than 5,000 new part-time jobs over the next year in virtual customer service. Virtually located employees who work 20 hours per week or more get benefits, including the company's innovative Career Choice program that pre-pays 95% of tuition for courses related to in-demand fields, whether or not those skills are relevant to Amazon. Amazon plans to hire more than 30,000 part-timers over the next year, along with 100,000 full-time, full-benefit employees over the next 18 months.

PANEL RECOMMENDS NEW A.I. INDEX

A 13-member panel of economists and computer scientists recommended the development of an Artificial Intelligence (A.I.) Index, analogous to the Consumer Price Index (CPI), to track the pace and spread of artificial intelligence technology. The panel released a 184-page report published by the National Academies of Sciences, Engineering and Medicine, whose studies are intended as objective analysis to inform public policy. The resulting technical assessment could then be combined with detailed data on skills and tasks involved in various occupations to guide education and job-training programs. A public-private collaboration is necessary to create such tools because information from many sources will be the essential ingredient. Technologists and academics differ sharply on how fast the next wave of automation will proceed and how many occupations will be affected. Pulling together government and online data sources could eventually give workers useful information about promising careers and give employers information about productive avenues for job training.

RETIREMENT ISN'T WHAT IT USED TO BE

While 55% of 45 to 65 year-olds surveyed by Ipsos/USA TODAY planned to travel more in retirement, a surprising 34% planned to keep working. Of those, 8% don't plan to retire at all, while 22% plan to quit sometime between 66 and 70. Of those surveyed who plan to work after retiring, 65% say they need to supplement their income, and a full 30% of those surveyed have no retirement savings. Of the 68% of people who do have savings, 30% have less than $100,000. More people are already working longer, with nearly 20% of Americans aged 75 and older in the labor force last year, up from 16% in 2007 and 10.8% in 1985.