MarketBriefing

2017 Issue 6 News from the month of May 2017

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U.S. ECONOMY

EXCHANGE RATES MAY 31, 2017

Euro	1 Euro = $1.123	$1.00 = 0.890 Euros
Canadian Dollar	1 CAD = $0.740	$1.00 = 1.345 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 110.634 Yen
Chinese Yuan	1 Yuan = $0.147	$1.00 = 6.813 Yuan
Mexican Peso	1 Peso = $0.053	$1.00 = 18.717 Pesos

MARKET WATCH MAY 31, 2017

DOW	21,009	0.3%
NASDAQ	6,199	2.5%
S&P 500	2,412	1.2%

Despite some weakness at the end of the month brought on by lackluster economic news and fears about a possible oil glut, all three indexes finished in the black for the month of May. The tech-heavy NASDAQ has now recorded seven consecutive monthly gains for the first time in more than four years. The DOW rose 0.3% to close at 21,009, the NASDAQ rose 2.5% to close at 6,199 and the S&P, the index most closely followed by economists, rose 1.2% to close at 2,412.

CONSUMER CONFIDENCE FALLS TO 117.9

The New York-based Conference Board's Consumer Confidence Index fell to 117.9 in May after dropping to a downwardly revised 119.4 in April. The Present Situation Index rose slightly to 140.7 and the Expectations Index declined to 102.6 in May after dropping to 106.7 in April. The Conference Board said that despite the decline, consumers remain optimistic 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 RISES 0.4%

Consumer spending rose 0.4% in April and spending for March was revised from flat to a gain of 0.3%. Incomes grew 0.4% in April after rising a modest 0.2% in March. The saving rate was little changed at 5.9% of after-tax income. The personal consumption expenditures (PCE) price index excluding food and energy rose 0.2% in April after falling 0.1% in March and was up 1.5% in the 12 months through April. Core inflation is now running further behind the Fed's goal of 2%, but economists say that the 1.5% year-over-year increase is expected to mark the low on core PCE inflation, with the gauge moving up to 2% next year. Consumer spending is closely watched by economists because it accounts for 70% of U.S. economic activity.

CONSUMER PRICES RISE 0.2%

The Consumer Price Index (CPI) rose 0.2% in April after falling 0.3% in March, which had been the first monthly decline in 13 months. The CPI was up 2.2% from April 2016. Gasoline prices rose 1.2% in April and were up 14.3% from a year earlier. Core inflation, which excludes food and energy, rose 0.1% after falling 0.1% in March but was up 1.9% year-over-year. Consumer prices rose steadily from August through January, but the pace of increases has eased recently.

UNEMPLOYMENT DROPS TO 4.3%

The unemployment rate fell to a second consecutive decade-low of 4.3% in May after falling to 4.4% in April and the economy added 138,000 new jobs after adding 211,000 in April. Construction added 11,000 jobs, most likely reflecting typical seasonal hiring. Average hourly earnings rose 0.2% in May and were up 2.5% year-over-year. The labor force participation rate has stabilized in the past several months, but remains below the rates seen for both men and women over the past two decades. Productivity, inflation and wage growth have all been persistently sluggish. 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 FALL 0.7%

Durable goods orders fell 0.7% in April after rising an upwardly revised 2.3% in March. It was the first decline in durable goods orders in five months. The decline was primarily due to a big drop in the volatile commercial aircraft category. Orders excluding transportation, which can also be a highly volatile category, dropped 0.4% in April after falling 0.2% in March. Orders for non-defense capital goods excluding aircraft, which are seen as a proxy for business spending, were essentially flat and orders for March were revised down from 0.5% growth to flat, creating speculation about where business investment is headed. Shipments in the same category, which factor into GDP, fell 0.1% in April and the gain for March was slashed to just 0.2%. The durable goods report is often both volatile and subject to sharp revisions.

CHICAGO PMI RISES TO 59.4

The Chicago Purchasing Managers' Index (PMI) rose to 59.4 in May after rising to 58.3 in April. It was the fourth consecutive month the PMI increased. New Orders fell by 4.5 points to 61.4. Production continued to strengthen, rising 3.7 points to 63.2. Order Backlogs jumped out of contraction after five months of decline. Inventories rose by 2.2 points to 55.5 in May. Prices Paid eased for the third consecutive month, although this inflation indicator is up almost 13% since last year. Panelists reporting data for the PMI reported continuing increases in the price of steel and plastic products. Order backlogs rose 4.8 points but remained in contraction for the sixth consecutive month. May's special question asked firms if they intended to expand their workforce in the next three months. More than half planned on hiring, suggesting that businesses are optimistic about demand over the summer. Of those who intend to hire, 40% plan on hiring permanent employees, 33% will hire temporary help and 27% plan to hire a mix of both. Some labor trends show that some firms are hiring more temporary employees in an attempt to control costs while others are having trouble finding qualified full-time workers.

WHOLESALE PRICES RISE 0.5%

The Producer Price Index (PPI) rose 0.5% in April after falling 0.1% in March and was up 2.5% over the past 12 months, the largest 12-month gain in five years. Energy prices rose 0.8% and food costs were up 0.9%. Core inflation, which excludes volatile food, energy and trade services prices, was up 0.7% in April and up 2.1% over 12 months. It was the largest 12-month gain on record, but records only date back to 2013, when the government revamped the way it tracks wholesale prices. The PPI for inputs to construction was up 3.6% in April after rising 3.5% year-over-year in March. Steady consumer demand and more stable commodity costs are expected to keep producer prices moving upwards; the strong dollar could moderate increases.

Q1 GDP REVISED UP TO 1.2%

GDP growth in the first quarter was revised up to 1.2% from the 0.7% first reported, according to the Commerce Department's second estimate. Revisions were largely positive, with stronger consumer and business spending and less of a drop in government spending than in the initial estimate. Consumer spending rose at a 0.6% pace, up from the first estimate of 0.3%. Capital expenditures by businesses picked up broadly, led by a dramatic 28.4% jump in spending on structures such as mine shafts and oil wells. Fixed nonresidential investment rose at an 11.4% pace, up from earlier estimates of 9.4% and a fourth quarter increase of just 0.9%. Government spending fell 1.1% instead of the 1.7% first estimated. Net exports added 0.13% to growth and private inventories subtracted 1.07%. The report also offered the first estimate on corporate profits for the first quarter, which fell 0.3% from the fourth quarter of last year but were up 11.9% year-over-year. The profits pull back came after four consecutive quarterly gains. Profits were depressed by big legal settlements involving U.S. subsidiaries of Credit Suisse, Deutsche Bank and Volkswagen. First quarter GDP is traditionally hampered by residential seasonality items and other one-time items, according to Wells Fargo. Since 2000, first quarter 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 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 in March, up 1.1% to 5.7 million from a downwardly revised February reading, according to the latest Jobs Opening and Labor Turnover Survey (JOLTS). Over the month, hires (5.3 million) and separations (5.1 million) were little changed. The quits rate remained at 2.1% and layoffs and discharges were unchanged at 1.1%. The share of workers leaving their jobs voluntarily is above the highs of last cycle and indicates that workers feel increasingly confident about their job prospects. A rising quits rate generally leads to faster wage growth. The JOLTS report is one of Fed Chair Janet Yellen's preferred economic indicators.

FED HOLDS STEADY IN MAY

The Fed held interest rates steady in a range of 0.7% to 1% at their meeting in May, and a number of indicators are causing economists to predict that the earliest chance for another rate hike will be in June. The Fed raised rates 25 basis points in March, but the most recent economic figures point to weakness in the economy. While most analysts expect this weakness to be temporary, it is enough to cause the Fed to pause.

CBO LONG TERM FORECAST

The Congressional Budget Office's (CBO) latest report to Congress is anything but optimistic. It says the national debt will double in the next 30 years to 150% of GDP and interest payments will become the largest budget line item. Federal spending is expected to soar over 22 years from 22% of GDP to 28%. And the CBO projects an average annual growth of just 1.9% over the next 30 years, sharply down from historic performance. Between 1974 and 2001, average growth was 3.3%. *The Wall Street Journal* points out that 3% annual growth would solve the debt dilemma and result in an economy that is $13 trillion larger in 30 years. That kind of growth would drive down the debt-to-GDP ratio to about 50%. Many blue-chip economists agree with the CBO that a growth rate of about 2% is the best we can do, but others argue that pro-growth policies could send GDP growth up in the right direction.

HOUSING & CONSTRUCTION

HOUSING STARTS DROP 2.6%

Housing starts dropped 2.6% in April to a seasonally adjusted annual rate of 1.17 million units after falling to 1.22 million units in March. **Single-family starts rose a scant 0.4%** to 835,000 units after dropping to 821,000 units in March. Multifamily starts fell 9.2% to an annual rate of 337,000 units after dropping to 394,000 units in March. **Regional starts were mixed.** Starts rose 19.4% in the Midwest and 9.1% in the West. Starts fell 3.4% in the South and 29.2% in the Northeast. Despite the decline, housing starts are up 5.3% from April 2016 and single-family starts are up 7.0%.

BUILDING PERMITS FALL 2.5%

Building permits fell 2.5% in April to a seasonally adjusted annual rate of 1.23 million units after rising to 1.26 million units in March. **Single-family permits fell 6.2%** to 789,000 units. **Multifamily permits rose 1.4%** to 440,000 units. **Regional permit issuance was mixed.** Permits rose 8.7% in the West and 1.0% in the Midwest. Permits fell 7.4% in the South and 10.3% in the Northeast.

NEW-HOME SALES FALL 11.4%

Sales of newly built, single-family homes fell 11.4% in April to a seasonally adjusted annual rate of 569,000 units. Sales were up more than 11% from April 2016. It was the first decline in new-home sales this year. However, sales for the first three months of the year were all revised up, and the pace in March was the highest since October 2007. The inventory of new homes for sale remained at 268,000 in April, which is a 5.7-month supply at the current sales pace. Wells Fargo noted that much of the inventory was in homes where construction has not yet begun; there are just 59,000 completed new homes available for sale. **Sales declined in all regions.** New home sales fell 4.0% in the South, 7.5% in the Northeast, 13.1% in the Midwest and 26.3% in the West. NAHB commented that despite the slowdown in April their forecast calls for new home sales to increase throughout the year, due to rising household formations, continued job growth and tight existing home inventory. 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 FALL 2.3%

Existing home sales fell 2.3% in April to a seasonally adjusted annual rate of 5.57 million after rising to a downwardly revised 5.70 million in March. **Single-family home sales dropped 2.4%** to a seasonally adjusted annual rate of 4.95 million in April, 1.6% above the pace a year ago. Total housing inventory at the end of April rose 7.2% to 1.93 million existing homes available for sale, but was still 9.0% below April 2016 and has fallen year-over-year for 23 consecutive months. Unsold inventory was at a 4.2-month supply at the current sales pace, down from 4.6 months in April 2016. **Regional sales were mixed.** Sales fell 2.7% in the Northeast, 5.0% in the South and 3.3% in the West. Sales rose 3.8% in the Midwest. Realtors note that homes in the lower-and mid-market price ranges are hard to find in most markets, and many are selling quickly for over ask, leading to further inventory shortages.

BUILDER CONFIDENCE RISES TO 70

Builder confidence rose two points in May to 70, according to the HMI (National Association of Home Builders/Wells Fargo Housing Market Index). Two of the three HMI components registered gains in May. The index for sales expectations in the next six months jumped four points to 79 and the index gauging current sales condition increased two points to 76. The component measuring buyer traffic dropped one point to 51. The three-month moving average for HMI scores rose in three out of four regions. The Northeast and South each rose three points, to 49 and 71, respectively. The West rose one point to 78. The Midwest was unchanged at 68. It was the second-highest reading for the HMI since 2008. Builders remain optimistic but face ongoing increases in building materials prices, hefty regulatory costs and shortages of both lots and labor, according to the NAHB.

MORTGAGE RATES FALL TO 3.95%

The 30-year mortgage rate fell 3.95% at the end of May after falling to 4.03% at the end of April. The drop to the lowest rate of the year was in response to a sharp drop in Treasury yields. In May last year 30-year rates averaged 3.64%. Mortgage rates have been a bit volatile of late, swinging along with yields on the 10-Year Treasury Bond.

LONG-RANGE HOUSING OUTLOOK

Wells Fargo remains cautious about the housing outlook. While they expect conditions to improve over the coming year and look for a relatively strong year for new and existing home sales, they still believe a return to the conditions that existed in the decades prior to the housing boom remains a long way off. They expect new home sales to rise 12.3% this year to 630,000 units and housing starts to rise 7.3% to 1.26 million units. Wells Fargo says that despite the expected gains in sales and new home construction, their housing forecast remains slightly below consensus forecasts. They believe that the barriers to a stronger recovery are formidable, and that housing demand is being held back by long-running demographic influences, tight credit conditions and a host of supply constraints. While conditions are expected to improve somewhat, they do not believe housing starts will return to the pre-recession norm of 1.7 million units per year. They believe the new norm will be around 1.6 million units, which we might reach by the end of the decade.

POWER TOOL INDUSTRY

ROBERT BOSCH

Robert Bosch has formed a strategic partnership with Chinese online trader Alibaba in the field of digital marketing in China, where Bosch sells power tools, household appliances, automotive accessories and heating and cooling systems.

STANLEY BLACK & DECKER

From Investor Day:

They call the Stanley Fulfillment System SFS 2.0. They describe it as an operating performance system with five important elements: breakthrough innovation, digital excellence, commercial excellence, core Stanley Fulfillment System functions and functional transformation.

Their growth goal is to double the size of the company over the next six years to $22 billion. They plan to do that by growing existing businesses organically by 4% to 6% per year and adding between $6 billion to $8 billion in acquisitions. The Newell Tools and Craftsman acquisitions will add about $2 billion of that goal.

They credited SFS 2.0 with spawning FlexVolt. They reportedly have another 10 breakthrough innovative projects in the pipeline. Innovations include new products, processes and business models, many of which are digitally enabled.

Their Digital Accelerator Team, which was formed in 2015, will double to about 100 employees by the end of the year. The team is comprised of world-class technology talent from leading universities and companies with expertise in IoT, cloud, advanced analytics, social media, mobile applications, search engine optimization and digital products, among others.

The focus on innovation and digital transformation extends to manufacturing, where they are rapidly deploying Industry 4.0, which enables their "make where we sell" strategy. They have gone from making 30% of products where they are sold seven years ago to 45% today. They have made more than 1 billion units of product in the U.S. in the past three years, and have increased their headcount 40% over their 11 network plants in the U.S.

Two of their manufacturing facilities are in the process of becoming truly smart, incorporating the latest in robotics, manufacturing execution systems, machine learning, 3D printing, innovation labs and makerspaces.

They are also elevating their commitment to corporate social responsibility with ECOSMART, their environmental, health and safety system. In addition to being positive for their communities and employees, research shows that purpose-driven companies simply outperform others.

Their global tools business will be greater than $8 billion by the end of the year. They have 50,000 customers for tools in 199 countries through four vertical markets. Two-thirds of their actual growth in tools over the past three years has come from new products.

They are number one in power tools for consumers and professionals and number one in hand tools and storage across construction, automotive, power tool accessories and storage. They are in a number one, two or three position in every major market of the world. Their goal is to be number one or two. They believe they are more than 70% larger than their next closest competitor.

Their quality today is 40% better than it was seven years ago.

They described FlexVolt as the greatest innovation in the last three decades. According to customers, it was our best launch in history, with a customer rating of 4.9 out of 5.0.

They own 20% of the corded tool business, and there is no doubt FlexVolt will take share from corded. It is too early for them to tell how much cannibalization there will be. In 2016 they launched 18 new power tools and 45 accessories for FlexVolt. This year they will launch 12 new power tools and 25 new power tools accessories, including outdoor power equipment. Over the next few years they plan to launch another 15 tools and 20 accessories and continue to expand the technology.

They think there is a big opportunity for them to take advantage of Craftsman's legacy and greatly improve Craftsman by innovation.

When they acquired Irwin and Lenox they had more than $9 million in backlog—orders that could not be filled. In six weeks they reduced that to $2 million.

In the seven years since Stanley and Black & Decker merged together they have grown the Stanley brand 24%, the Black and Decker brand 28% and the DeWalt brand 71%. Over the past decade and a half their tools franchise has grown from $600 million to more than $8 billion. This year they plan to grow the tools business by $1 billion for the first time ever. For the company to grow to $22 billion by 2022 they would have to have a tools business in the $12 billion to $14 billion range. They believe there is still a lot of share to be gained in the tools business.

Chasing volume in the power tools business can put a lot of pressure on the ability to grow margins because power tools are very promotion sensitive.

They would not discuss sales by channel, but did say they are the number one tool provider via ecommerce as well as number one in brick-and-mortar channels.

Other News:

Charlotte-area industrial developers confirm that SB&D is looking for a partner to build a 400,000-square-foot tool manufacturing center in northern York County. Insiders say they believe the plans are part of SB&D's commitment to more American manufacturing in the wake of their Craftsman purchase. A request for proposals has gone out. SB&D already has a DeWalt hand-tool factory near Carowinds. Developers say that the company wants the new plant to be in York County in order to be close to the existing DeWalt plant. There is also a 925,00-square-foot tool distribution center called Stanley Logistics in Kannapolis that employs 3,000 people.

Veteran Stanley executive James Cannon will become the new president and CEO of FLIR Systems in mid-June. FLIR is an Oregon-based manufacturing firm that designs and develops thermal imaging, visible-light imaging and diagnostic and advanced threat detection systems. He was most recently president of Stanley Security North America and Emerging Markets.

TTI/TECHTRONIC INDUSTRIES

TTI/Techtronic Industries is being sued by Sears for allegedly attempting to change the terms of Sears' contract with them to manufacture Craftsman tools for the retailer. See the full story under Sears in the Retail section.

TRIMBLE

Q1 revenue rose 5.0% to $613.9 million, based on the new segment financial reporting previously announced. Buildings and Infrastructure revenue was up 8.0% to $188.1 million. Geospatial revenue fell 2.0% to $149.8 million. For the second quarter Trimble now expects revenue of between $625 and $655 million. CEO Steve Berglund said that their outlook for the remainder of the year anticipates continuing year-over-year improvements in both revenue and profitability.

Trimble acquired NM Group to expand their energy portfolio and provide visual and 3D asset management. Financial terms were not disclosed.

RETAIL

RETAIL SALES RISE 0.4%

Retail sales rose 0.4% in April after rising an upwardly revised 0.1% in March and were up 4.5% from April 2016. Core retail sales, which exclude auto sales, gas and building materials and factor into GDP, rose 0.2% in April after rising an upwardly revised 0.7% in March. Sales at building material and garden equipment and supplies dealers were up 1.2% after declining 1.7% in March. Sales at non-store retailers, which include internet sales as well as catalog sales, rose a strong 1.4% in April after rising 0.6% in March. Retail sales account for one-third of all consumer spending, with services making up the other two-thirds.

TARGET PAYS RECORD SETTLEMENT IN DATA BREACH

Target agreed to pay $18.5 million to resolve an investigation by state prosecutors into their massive 2013 data hack. It was the largest multistate data breach settlement in history. The money will go to 47 states and the District of Columbia. The Target data breach was followed by several other high-profile beaches including The Home Depot and Neiman Marcus. The breach is credited with being the turning point that alerted American corporations that managing cybersecurity was a priority for the C-suite, not just the IT department.

THE HOME DEPOT

First quarter sales rose 5% to $23.89 billion and comp store sales rose 5.5%. Comp sales at U.S. stores were up 6.0%. The increase in comp sales beat expectations.

Sales of big-ticket items over $900, typically about 20% of sales, rose 15.8%. The number of customer transactions was up 1.6% to 380.8 million and average ticket value rose by about $2 to $62.39.

THD raised their profit forecast for this fiscal year and expects both comp store sales and net sales to rise 4.6%.

From their Q1 Conference Call with Analysts:

All three U.S. divisions posted positive comps, led by the Southern Division. Canada and Mexico also posted positive comps in local currency.

All merchandising departments posted positive comps. Appliances, lumber and flooring were in the double digits, and Tools, including Tool Storage and Power Tools, were above the company average.

Appliances, Flooring and Roofing drove the 15.8% increase in big-ticket sales.

Their new assortment of lithium-ion powered outdoor power tools is being very well received.

Their newly simplified online checkout process reduces customer's checkout time by an average of 20%. They are also using big data to better know their customers so they can better meet their needs. Their refreshed mobile app personalizes the user's home page based on location, customer segment and shopping patterns. They are seeing increased conversion rates.

Pro sales grew twice as fast as DIY sales. They are working to strengthen their sales support, assortment and fulfilment for Pros. The Pro business was fairly balanced between big-ticket Pros and small spend Pros.

They continue to see significant opportunity to help Pros manage and grow their business, and connect Pros to do-it-for me customers through their Pro referral program.

Another component of the Pro strategy focuses on MRO customers with Interline. The rollout of Interline's catalog of products to Home Depot stores is now live in more than 1,500 U.S. stores.

They are investing in interconnected retail and seeing positive response from customers in terms of improved customer satisfaction scores and increased sales. Traffic growth was robust and online sales grew approximately 23%.

The Merchandising Execution Team (MET) reduced merchandising set times by 25%.

They hired more than 85,000 new associates for the busy spring sales season using a simplified application that reduces the time needed to apply by 80%.

They opened two new stores in the U.S. and one in Mexico during the first quarter, bringing their total store count to 2,281 and selling square footage to 238 million square feet.

Total sales per square foot for the first quarter rose 4.6% to $394. End of the quarter merchandise inventories were up $390 million to $13.6 billion. Inventory turns were 4.8 times, flat compared to Q1 last year.

They are expecting currency pressure of about $250 million this year.

Store visits were up 15% year-over-year and their conversion rate increased 30 basis points. 45% of orders placed online are picked up in the store.

They have invested disproportionately to take share in categories where they overlap with key competitors who have been "challenged" in this marketplace, including the appliances, tools, hand tools and storage categories.

They get a 300-page report on how all the great new innovative products are doing every month and they use it to constantly improve what they offer.

There are some categories and segments that they feel will lean more toward the digital world, including products that are smaller cube, more dense and higher value, including faucets and power tools.

They are very pleased with their performance on the private label credit card. Penetration grew year-over-year by 20 basis points and is now 22.6%. Sales on their private label card for Pros outpaced the company average.

Other News:

Home Depot CFO Carol Tome told TheStreet.com that all of their stores are cash flow positive, and the net present value of operating each store is greater than the net present value of closing the store. She does not have a list of stores that she is worried about.

LOWE'S

Q1 sales rose 10.7% To $16.86 billion and comp sales rose 1.9%. Both results were below expectations. Comp sales at U.S. stores rose 2.0%.

From their Q1 Conference Call with Analysts:

Average ticket increased 3.5%, partially offset by a 1.5% decline in transactions that stemmed from weaker outdoor performance. Outdoor typically accounts for 35% of Q1 and 40% of Q2 sales. This year's spring strategy was designed to balance indoor and outdoor, but in retrospect, they believe they focused too much on indoor.

They posted positive comps in 8 of 11 product categories and 12 of 14 regions. Comps were also above average for in-home sales.

Comp sales grew 27% on lowes.com. They've added online scheduling capabilities to their in home services and they've seen a very strong response, with increased leads and appointment requests.

Pro customer comps were above average. They continue to focus on adding destination brands to attract Pros and connecting seamlessly with Pros across all channels.

Their acquisition of Maintenance Supply Headquarters is an important step in their strategy to better serve Pro customers. Combined with their November 2016 acquisition of Central Wholesalers their ability to serve the multifamily housing industry as both a primary and secondary supplier is greatly expanded. They also increased their presence in major metro markets. The combined multifamily MRO business is expected to generate more than $400 million in annual sales with 16 distribution centers and more than 200 additional outside sales representatives.

Their acquisition of Canadian chain RONA reached its one-year anniversary in mid-May. They have converted six RONA big box stores to Lowe's branded stores and improved profitability by leveraging shared supplier relationships.

More than half of the homeowners they surveyed believe that the value of their home will continue to increase and nearly half intend to do a home improvement project in the next six months.

They recognize they have to improve their messaging to the DIY customer and optimize their promotions.

They're working to drive productivity in their supply chain by introducing new international carriers into their system and balancing volumes against three new shipping alliances in Southeast Asia.

They expect to recover their first quarter sales miss over the next two quarters by increasing volume, improving commercial effectiveness and rebalancing indoor and outdoor. They expect total sales growth of 5% and comp sales growth of 3.5%.

Their credit card penetration for private label has grown steadily to 28%.

They have tried to streamline their organization in order to be more nimble and speed up decision making.

Other News:

Lowe's added home monitoring to their Iris security system to enable Lowe's customers to link their smart home to a professional monitoring system for $14.95 per month. Alarm Tracker is another Iris feature that identifies threats at home, whether it's security, smoke or carbon monoxide alarms. Iris can also be connected to a Bosch system to ensure that pets don't set off home security systems.

Lowe's is buying Maintenance Supply Headquarters, a producer of repair and home improvement tools for the multifamily sector, for approximately $512 million. Lowe's will also acquire their 13 distribution centers. Maintenance Supply Headquarters, based in Houston, was founded in 2006 and carries more than 5,300 MRO products. They serve customers in the western, southeastern and south-central U.S.

WALMART

Q1 sales rose 1.4% to $117.54 billion and comp store sales rose 1.4%. Traffic in U.S. stores was up 1.5%. Average ticket edged down 0.1%, reportedly due to lower sales of higher-ticket items at the beginning of the quarter as well as continued price investment (price cutting).

Online sales grew at the fastest clip in at least five years with gross merchandise volume, a measure of all the goods Walmart sells online, rising 69% in the first quarter. Walmart added 15 million items to their website in the quarter, bringing the total number of items available online to 50 million. Walmart also did away with their Amazon Prime-like subscription plan and began offering free shipping for orders of $25 or more and free pick-up in store for any size order.

Walmart online chief Marc Lore says that they are still playing catch-up to Amazon. One example is what he referred to as long-tail categories, which refer to the seemingly endless assortment of products that online retailers can offer compared to the space limitations of physical retailers that force them to offer edited assortments that focus on category best sellers. Lore got his current job after Walmart bought his company, Jet.com, for $3.3 billion last September. Online sales grew 29% over the Christmas holiday quarter, helping the retailer's same-store sales top estimates.

Walmart opened their 100th training academy in the U.S. and now has academies in 40 states. Since the program launched last year Walmart has expanded the curriculum to cover more than 65 positions. Associates are trained through a combination of classroom and sales floor exercises, utilizing technology including tablet computers and cloud storage for training materials. Walmart plans to have a total of 200 academies opened in all 50 states by the end of the summer. So far more than 52,000 associates have graduated.

The U.S. government has asked Walmart to pay $300 million to settle a five-year investigation into foreign bribery. The settlement offer was made after Walmart had spent nearly $840 million on their own internal investigation and upgrading their compliance operations. Walmart is expected to agree to the offer.

SEARS

Q1 revenue fell to $4.3 billion from $5.4 billion in 2016 and comp store sales fell 11.9%. The windfall from the Craftsman sale to Stanley Black & Decker helped the retailer turn a profit of $244 million during the quarter.

CEO Eddie Lampert gave a rare interview to the *Chicago Tribune* in early May, saying that he's still committed to turning Sears into a 21st century merchant focused on catering to their best customers. He said the turnaround is taking longer than he expected, and complained that media speculation about Sears' inevitable bankruptcy has made it even tougher for Sears and Kmart to work with suppliers. One reason they have avoided filing for bankruptcy protection is the great human cost of doing so; they are committed to fulfilling their obligations to their retirees and pension beneficiaries, and that comes at a tremendous cost. They have dramatically improved the Sears Shop Your Way program as well as improved the value proposition on their credit card. Lampert said the media's perception that they are going under has made working with vendors very challenging, and that Sears has as much time to turn the business around as their vendors, lenders and shareholders are willing to give them.

Sears filed suit against One World, a subsidiary of Techtronic Industries that manufactures Craftsman power tools and accessories for Sears. CEO Eddie Lampert explained the actions in a long blog post, saying that they will fight hard to hold One World to honor the agreement Sears has with them. According to Lampert Sears has paid One World more than $868 million since 2007, and has paid and continues to pay all bills as they come due. Lampert says that One World also manufactures power tools for other companies, and by reducing its commitment to Sears, One World can do more business with those other companies. Lampert went on to say that they have purchased more than $13 billion a year in goods and services for Sears and Kmart across their entire vendor base and they have always met their payment obligations and are confident they will continue to do so. Techtronic Industries had no comment on the allegations they had threatened to terminate or substantially alter the agreement they have with Sears.

Sears and one of their tool suppliers, Apex Tools, was found guilty of infringing on the patents of suburban Chicago-based LoggerHead Tools. LoggerHead is a father and son company that sells what they call the Bionic Wrench, a tool that can adjust much the same way pliers adjust but maintains the grip of a wrench. The product sold 10,000 units when it debuted on QVC and was reportedly a hot seller at both Sears and Ace Hardware. Sears then started selling a similar product called MaxAxess produced in China by Apex. The original Bionic Wrench sold for $24.99; the Apex version cost $11.99. The Browns have spent five years bringing Sears and Apex to court. The jury awarded LoggerHead $6 million in damages. Sears says they are disappointed, but that their supplier Apex will be responsible for damages.

Sears is closing at least 30 more underperforming stores, including 12 Sears stores and 18 Kmarts, with most scheduled to shut down in July.

Sears is pushing back their debt payments, having reached an agreement to extend the maturities of some of their $500 million in debt originally due in July. The loan is held by Bill Gates' Cascade Investment LLC and by companies controlled by Sears' CEO Eddie Lampert. Sears is also transferring pension liabilities of $515 million to Metropolitan Life Insurance company. Sears says they are working to reduce their debt and pension obligations by $1.5 billion during the year.

ACE HARDWARE

Revenue grew 0.1% in the first quarter to $1.2 billion. Net income was up 8.4% year-over-year. Comp store sales were down 0.2% due to decreased customer traffic, according to the approximately 3,000 Ace retailers who share daily sales data. Retail revenues from Ace Retail Holdings rose 2.8% to $52.0 million thanks to the addition of new retail stores. However, comp sales decreased 3.0%. Ace added 16 new domestic stores and canceled 21 for a net decrease of 5 stores during the quarter, which left a net gain of 56 stores from the first quarter of 2016. CEO John Venhuizen said the sales performance was lackluster and refused to blame it on the weather.

TRUE VALUE

Gross billings fell 1.6% in the first quarter to $502 million and revenue fell 2.6% to $347.6 million. Net margins were essentially flat. Wholesale sales were down 1.6% on a gross billings basis. Retail comp store sales fell 1.9%. True Value said that unfavorable weather patterns across the country led to a decline in traffic, lower volume at retail and decreased warehouse replenishment. Destination True Value stores had comp store sales 200 basis points above the overall retail comp. During the first quarter True Value added 534,930 square feet of retail space.

W.W. GRAINGER

Seeking Alpha recently published an in-depth look at how Grainger is faring in light of increased competition from Amazon. They found:

The MRO market is highly fragmented, with the top 50 distributors representing only about 30% of the North

American market, which is estimated to be $160 billion. Grainger holds close to 6% of the market, making them a market leader. Grainger has a higher percentage of the market share in larger companies than its competitors, which is also a key difference from Amazon. Larger customers rely on Grainger's sales reps and expertise, and the added level of customer service. Grainger also has a store footprint of nearly 400 stores, with 19 distribution centers, which allows someone to actually go buy the product in person in the case of machinery failure or an emergency.

Grainger's KeepStock program puts vending machines at the job site and represents another layer of the customer service and convenience that Grainger offers its clients. The machines assist in inventory management, making it easier for common items to be kept at the site without requiring a staffed supply area to maintain worker accountability of materials used. The machines also upload the data on items used to allow for easier ordering of products as they get low or run out. Right now Amazon does not offer a similar program and there's no Amazon Dash Button for businesses.

Grainger currently operates the 15th largest e-commerce site in the U.S., with 65% of its sales now originating online. Most orders are shipped with next day delivery. Grainger also launched a no-frills single-channel online offering called Zoro Tools. This website offers lower prices, on average, and limited support, but it competes directly with Amazon's business-to-business offerings.

Margins have contracted significantly over the last few years as pricing has become more and more of an issue. Grainger recently adjusted list prices companywide to support large customers consolidating purchases, and dropped prices online to attempt to regain market share within the medium-sized customer segment. Q1 2017 already saw positive results from these pricing improvements, but much of the volume gains came at the price of lower margins.

Grainger expects better volume growth in the mid to high single digits in the back half of 2017, and the continued ability to pass along cost inflation with regular pricing increases. Grainger is actively cutting costs across the company to be more competitive with the likes of Amazon and to continue to gain market share.

AMAZON

Amazon quietly reduced their shipping threshold once again, lowering the amount needed for free shipping from $35 to $25, matching Target's threshold and beating Walmart's promise of free two-day shipping with a $35 minimum order. However, it will take five to eight days for shipments to arrive for non-Prime customers. Amazon Prime members get free shipping and two-day delivery on all orders.

Amazon is giving their voice-enabled Echo speaker with digital assistant Alexa a touch screen and video-calling capabilities as part of what analysts term an effort to compete with Google's smart home offerings. The 7-inch screen on the Echo Show enables the speaker to supplement voice responses with visuals and other information displays. That could mean extended weather forecasts, cooking tutorials on demand or making video calls with other Echo Show devices or the Alexa app for iPhones and Android phones. The new Echo Show goes on sale at the end of June for $230, making it the priciest Echo yet. Amazon's Echo currently has a market share of about 71%, with the market for voice-assisted speakers expected to double this year, with nearly 36 million Americans using such a device at least once a month by the end of the year.

American Express is expanding its partnership with Amazon by launching its new Amex skill for Alexa. Customers will be able to use Alexa to check their account balance, review recent charges and make a payment, among other options. They'll also be able to browse limited time offers and link offers to their eligible cards. Card members will say "Alexa, open Amex."

Amazon hosted a three-day gathering in late May at their Seattle headquarters in order to persuade some of the world's biggest consumer package goods (CPG) 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 a small part of their business now it is the future of retail, 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 manufacture their own private label products if brands aren’t willing to sell on their marketplace or change and adapt to new needs.

Amazon is hiring a business expert to figure out how the company can break into the multibillion-dollar pharmacy market, according to CNBC. For the last few years, Amazon has held at least one annual meeting to discuss whether they should enter the business, but with the rise of high-deductible plans and the trend towards consumers paying for healthcare, they appear ready to seriously explore the opportunity. Amazon also recently started selling medical supplies and equipment in the U.S. Analysts say the market is ripe for disruption but difficult to enter. All the major drug store companies including Walmart already offer mail order delivery.

Amazon is opening their 20th book-less campus bookstore in Cleveland. Students order textbooks and dorm furnishings online and come to the store to pick up their orders, which saves Amazon money. Amazon also gives students 50% off an Amazon Prime membership.

Amazon celebrated the streaming debut of their award-winning original movie Manchester by the Sea by giving every single home in the small Massachusetts town that was the setting for the movie a free year of Amazon Prime. Amazon announced the news by sending a gift box to every home with a code that allows people to claim their one-year Prime membership and free popcorn to enjoy while watching the movie.

MARKET TRENDS

SOLAR-POWERED HARD HAT

A solar-powered hard hat has been developed by researchers at Qatar University. The hat help cools construction workers and lowers skin temperature by 10 degrees centigrade by using a fan in the top of the helmet that blows cool air onto the worker’s face. The hats will be given to workers who are building soccer stadiums for the 2022 World Cup in Qatar.

CONSTRUCTION SITE TRAILERS GO HIGH TECH

Video-conferencing tools, equipment vending machines and other pieces of technology are working their way into job-site trailers as companies press for greater efficiency. In the future, virtual reality could also become a common feature on the job site. Turner Construction plans to have a remote virtual reality program allowing 15 people in different locations to become avatars within the same virtual BIM model and to collaborate on project review in real time and in real-world dimensions. Touch-panel plan tables, smart lockers, video conferencing, super-range wireless and equipment vending are helping to cut down on clutter and offer more efficient onsite collaboration between GCs, supervisors and subs.

YOUNG PEOPLE NOT INTERESTED IN CONSTRUCTION CAREERS

Only 3% of 18- to 25-year-olds want a career in construction, according to a National Association of Home Builders poll. Forty-three percent of those polled wouldn't consider working in construction no matter how high the compensation, although 21% would consider it if the pay were $100,000 or more.

FEMALE-DOMINATED JOBS GROW FASTEST

Fields dominated by women are expected to grow nearly twice as fast in the future while job in fields traditionally heavily populated by men are expected to continue to shrink, according to a new report from job search site Indeed. Male-dominated fields like manufacturing and ag are shrinking. The fastest growing sector, health-care, overwhelmingly employs women. More than one-third of men (36%) work in occupations that are at least 80% male; 31% of women work in occupations that are at least 80% female. The report notes that Trump's infrastructure program could add a significant number of jobs in construction and that growth in tech-related occupations provides opportunities for both sexes. The latest data showed that there were 627,000 unfilled jobs in tech in the fourth quarter of 2016.

THE GENDER GAP IN CONSTRUCTION

Engineering News Record (ENR) recently hosted a Women in Construction Conference attended by more than 400 women. Parsons Corp. said that the gender pay gap in construction, with women earning 93 cents for every dollar a man earns, is narrower than the business average of 82 cents, but women are still not at parity. Companies diversified by gender and ethnicity outperform peers by 15% and 35%, respectively, according to McKinsey. A 2015 study of 2,200 male and female structural engineers revealed a $52,000 gap at the principal level, despite faster advancement of women at lower levels. A more detailed study of the compensation gap is being undertaken this year.

ROBOTS THAT CAN WORK WITH THEIR HANDS

Robots first went to work in automotive factories more than 50 years ago. And while robots can do a lot of simple tasks, it's been challenging to create robots with the dexterity of human hands. A research group at Northeastern University is working on designing humanoid robots that can literally lend us a hand. The professor leading the study, Taskin Padir, says that their design work focuses on creating a new class of robotic hands capable of precise fine movements and autonomous grasping that would enable them to do things like hammer in nails, change batteries and perform other tasks that are very simple for humans but very challenging for robots. Utilizing 3-D printing allows them to make prototypes quickly and try low cost disposable components. Miniaturization may soon allow electronic sensors to tell whether the hand is squeezing too hard or which direction a slipping object is moving. A robot that could operate a drill with two hands or pass machine parts from one hand to another would allow factories to automate many more steps.

BETTER WI-FI HELPS RETAILERS COMPETE

A poll of 1,500 U.S. smartphone users conducted by research firm Euclid Analytics showed that 41% of millennials and 53% of Gen Z shoppers look for complimentary Wi-Fi more than any other digital service when they visit a store. Euclid Analytics says that offering Wi-Fi allows retailers to collect and analyze a massive amount of customer data, which would allow them to start tailoring shopping experiences the way Amazon does. Once a customer is logged on, their movements can be tracked, allowing the retailer to push a coupon for something they've been looking at or send an employee to see if they need help when someone stops in an area for an extended time.

SHOPPABLE VIRTUAL REALITY

Target is using computer generated imagery used in movies to create a 360-degree, virtual reality-like experience on their website that requires no special app or platform. Customers can choose one of four living room looks (modern, farmhouse, mid-century or traditional). After choosing, they can browse about 140 featured products ranging from rugs and sofas to wall hangings and decorative throws in a virtual living room designed to help customers visualize the size and scale of items as well as provide styling tips. Target plans to more than double their computer-generated imagery (CGI) team this year by hiring more than 40 more CGI professionals.

RESIDENTIAL ENERGY STUDY

The 2015 Residential Energy Consumption Survey (RECS) released by the U.S. Energy Information Administration (EIA) showed several trends in energy use and consumption:

Younger households have a lower concentration of televisions per person and a higher concentration of portable devices like laptops, tablets and smartphones. Older households are more likely to have a higher concentration of desktop computers.

70 million homes (59%) have double or triple-pane windows.

Homeowners are more likely than renters to have energy-efficient LED lightbulbs; only 11% of households have all incandescent bulbs.

77 million households use central air-conditioning, up 17% in the last 10 years.

Survey takers were able to choose how they wanted to respond to the survey for the first time. The 2015 RECS household characteristics data was the first survey ever administered that allowed the 5,600 respondents to choose to respond via an in-person interview, (43%) a mail-in questionnaire (20%) or an online questionnaire (37%).

The full survey including household characteristics data can be found at www.eia.gov/conumption/residential/data/2015.

THE FUTURE OF RETAIL

Warren Buffet told attendees at Berkshire Hathaway's annual meeting that ten years from now the retail landscape will look nothing like it looks today. In February Berkshire Hathaway sold all of their holdings in Walmart ($900 million) and invested billions in airlines, saying that retail was just too tough in the age of Amazon, and the airline industry had gone through so much consolidation that the survivors were likely to be around for a while. Asset management company Cohen & Steers released a report that say they see the retail weakness that is occurring in a relatively healthy economy as part of a permanent evolution in how and where Americans spend their money. More than 3,200 stores have closed this year, and Credit Suisse expects that number to grow to more than 8,600 by the end of the year. For comparison, 6,163 stores closed in 2008, the worst year for closures on record.

ONLINE RETAILING GROWTH

Online retailing is expected to grow at a compounded annual growth rate of close to 16% between 2017 and 2021, according to a research forecast from Technavio. Among the factors spurring online retail growth are the expanding number of mobile devices and the increasing availability of easy and secure online payment options, the ability to track shipments, speedy and often free delivery and 24/7 customer support. The report went on to say that U.S. consumers are experiencing an increase in what they referred to as "time poverty," which also makes shopping online with a few clicks an attractive option.

RETAIL SECTOR SURVIVAL

***Barron's* thinks the retail sector may be healthier than the current state of the sector on Wall Street would suggest.** *Barron's* says that shopping trends still favor companies with differentiated products or concepts and that what they term as "creative destruction" has always been part of the formula for creating breakthrough retail advancements. Some of the retailers seen surviving the current "retail reset" include The Home Depot, Lowe's and Walmart, as well as Nordstrom, Best Buy and Costco.

ANTI-BOT TECHNOLOGY

Amazon has launched a new tech weapon against Walmart in what many analysts term the pricing war to dominate retail. Amazon blocked an army of Walmart bots being used to track prices on Amazon's website several million times a day. Amazon declined to discuss anti-bot measures, but said that they prioritize humans over bots in order to ensure they provide the shopping experience their customers expect.