

Market Briefing

2017 Issue 9 News from the month of August 2017



BOSCH
Invented for life

Bosch

Dremel

RotoZip

Vermont American

CST/berger

freud

Sia

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- Single-family starts -0.5%

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- NE 19.2%, MW -17.4%, W -7.9%, S -1.4%
- Single-family permits steady

New-Home Sales Fall 9.4%

- NE -23.8, MW 6.2%, W -21.3%, S -4.1%

Existing Home Sales Fall 1.3%

- NE -14.5%, MW -5.3%, W 5.0%, S 2.2%
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- From their Q2 conference call with analysts

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Ace Hardware

- Q2 revenues rise 4.6%; comp sales rise 3.2%
- New marketing director targets core strengths

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Construction Management College Major

Millennials Don't Mind Sharing Data

What 55+ Homebuyers Want

Robert Bosch Tool Corporation

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Mount Prospect, IL
60056 USA

www.boschtools.com

U.S. ECONOMY

EXCHANGE RATES AUGUST 31, 2017

Euro	1 Euro = \$1.188	\$1.00 = 0.842 Euros
Canadian Dollar	1 CAD = \$0.797	\$1.00 = 1.254 CAD
Japanese Yen	1 Yen = \$0.009	\$1.00 = 110.159 Yen
Chinese Yuan	1 Yuan = \$0.151	\$1.00 = 6.592 Yuan
Mexican Peso	1 Peso = \$0.056	\$1.00 = 17.827 Pesos

MARKET WATCH AUGUST 31, 2017

DOW	21,952	0.3%
NASDAQ	6,429	1.3%
S&P 500	2,472	0.1%

All three indexes posted modest gains in August, the fifth consecutive month of gains. The markets once again shrugged off the latest rounds of upheaval in the Trump administration as well as concerns over North Korea, focusing instead on good economic news and upwardly revised GDP. The DOW rose 0.3% in August to close at 21,952, the tech-heavy NASDAQ rose 1.3% to close at 6,429 and the S&P, the index most closely followed by economists, gained two points for the month to close at 2,472.

CONSUMER CONFIDENCE RISES TO 122.9

The New York-based Conference Board's Consumer Confidence Index rose to 122.9 in August after rising to a downwardly revised 120.0 in July. The Present Situation Index continued to climb, increasing to 151.2 after rising to a downwardly revised 145.4 in July. The Expectations Index rose to 104.0 from a slightly downwardly revised 103.0 in July. The Expectations Index is typically the most volatile of all the components. The Conference Board said that consumers' more optimistic views of the current situation was the big driver behind the boost in confidence. 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 0.3%

Consumer spending rose 0.3% in July after rising an upwardly revised 0.2% in June. The personal consumption expenditures index (PCE) rose just 0.1% in July after being flat in June and dropping 0.1% in May and was up 1.4% year over year. Inflation is continuing to fall farther from the Fed's target of 2%. Incomes grew 0.4%, the best showing since February. The strength came from a strong 0.5% increase in wages and salaries. Analysts said the report shows that consumer spending is solid. There was a strong 0.6% increase in purchases of durable goods such as autos and a solid 0.5% rise in demand for non-durable goods such as food and clothing. Spending on services rose 0.2%. The personal savings rate slipped to 3.8% of after-tax income, down from 3.9% in June. Consumer spending is closely watched by economists because it accounts for 70% of U.S. economic activity.

CONSUMER PRICES RISE 0.1%

The Consumer Price Index (CPI) inched up 0.1% in July after being unchanged in June. The CPI was up 1.7% from July 2016, the fourth consecutive month in which year-over-year gains have eased. Core inflation, which excludes food and energy, rose 0.1% for the fourth consecutive month and was up 1.7% year over year. Core inflation has consistently been below the Fed's target of 2%. Fed Chairman Janet Yellen told Congress that the Fed believes that the recent lower readings on inflation are partly the result of a few unusual reductions in certain categories of prices. However, analysts believe that the Fed will hold off increasing interest rates for now, and may not raise them again until December at the earliest.

UNEMPLOYMENT RISES TO 4.4%

The unemployment rate rose to 4.4% in August after falling to 4.3% in July. The economy added 156,000 new jobs in August, the 83rd consecutive month of job gains. Job growth in June and July was revised down by a combined 41,000, leaving an average monthly gain this year of a solid 176,000 jobs. Average hourly pay has risen 2.5% percent over the 12 months ending in August. Pay raises

typically average 3.5% to 4% when the unemployment rate is this low. The leading source of job growth was in manufacturing, which added 36,000 jobs. Construction added 28,000 jobs in August and has averaged a gain of 13,000 jobs over the past three months. Fed Chair Janet Yellen has said that the economy needs to create just under 100,000 jobs each month to keep up with growth in the working-age population.

DURABLE GOODS ORDERS FALL 6.8%

Durable goods orders fell 6.8% in July after jumping 6.5% in June. The big decline was primarily due to a steep drop in orders for transportation equipment, with orders for non-defense aircraft falling 70.7% after jumping 129.3% in June. The decrease was primarily due to a big drop in orders at Boeing. Excluding the volatile transportation category durable goods orders increased by 0.5% in July. Orders for non-defense capital goods excluding aircraft, a closely watched indicator of business spending, rose by 0.4% in July after being unchanged in June. Shipments in the same category, which factor into GDP, rose 2.0% in July after June orders were revised upwards. Economists said the steep drop in headline durable goods orders is nothing to worry about, since it was almost entirely due to a pullback in the volatile aircraft category, and the strong increases in non-defense capital goods orders and shipments support continued growth. The durable goods report is often both volatile and subject to sharp revisions.

CHICAGO PMI UNCHANGED

The Chicago Purchasing Managers' Index (PMI) remained stable at July's level of 58.9, which was the lowest level since April. Despite the retreat, all components remained above their respective 12-month averages. New Orders increased slightly after falling 11.6 points in July to 60.3, the lowest level since February. Production also increased slightly after falling 6.9 points to 60.8 in July. Order Backlogs fell for the second consecutive month after reaching a 23-year high in June. MNI Indicators said that key indicators remain high and point to robust business confidence. Each month a panel of respondents are asked a single special question. Only 26.2% of PMI panelists answering the month's special question reported that their inventory levels were currently too high. When an-

swering the same question in November 2015, 44.2% of firms said inventories were too high.

WHOLESALE PRICES FALL 0.1%

The Producer Price Index (PPI) fell 0.1% in July after rising 0.1% in June and was up 1.9% over the past twelve months. It was the first decline in wholesale prices in 11 months and reflected the third consecutive monthly decline in energy prices. Core inflation, which excludes volatile food, energy and trade services prices, fell 0.1% in July after rising 0.2% in June and was up 1.8% from July 2016. The PPI for inputs to construction was up 0.3% in July and 3.0% year over year. Eight of 11 key input prices rose in July. For the past five years of the recovery inflation has been below the Federal Reserve's target for annual price gains of around 2%. Analysts note that prices further back in the pipeline are mixed, and expect inflation to remain tame for the foreseeable future.

Q2 GDP RISES 3.0%

GDP grew an upwardly revised 3.0% in the second quarter, well ahead of expectations and up from the 2.6% growth initially reported. It was the best growth since the first quarter of 2015. Consumer spending grew 3.3% in the quarter, up from the initial reading of 2.8% and a big improvement from 1.9% in the first quarter. Consumers spent more on motor vehicles, cellphones, housing and utilities than originally estimated. The saving rate slipped to 3.7% from the 3.8% first reported and 3.9% in the first quarter. Despite robust spending, inflation remained tame, with the Fed's preferred inflation measure, the personal consumption expenditures (PCE) price index excluding food and energy, increasing at 0.9%, unrevised from the first reading. Spending on business equipment jumped 8.8%, the fastest growth in two years, and up from the 8.2% spending first reported. Investment on non-residential structures was revised up from 4.9% to 6.2%. Inventory remained neutral and trade added two-tenths of a percent to growth. However, housing was a big drag in growth, with the investment in homebuilding at a seven-year low.

JOB OPENINGS HIT RECORD HIGH

The number of job openings increased by 461,000 in June to a seasonally adjusted record high of 6.2 million according to the latest Jobs Openings and Labor Turnover Survey (JOLTS). It was the highest level of job openings since JOLTS started in December 2000 and pushed the job openings rate up to a near one-year high of 4%. Construction had 69,000 unfilled positions. There were 179,000 vacancies in the professional and business services industries. Job openings in June were concentrated in the Midwest and West regions; the Northeast was the only region with no new net job openings. The ratio of available workers per available job sank to its lowest level ever, with managers now having about 1.1 candidates per job opening, making competition fierce for talent. About 1.3 million Americans quit their jobs in June, down from 3.2 million in May, sending the quits rate down to 2.1% from 2.2% in May. Layoff rates are historically very low, but layoffs rose by 28,000 in June to 1.7 million. Economists warn that the record level of job openings could negatively impact economic growth. The JOLTS report is one of Fed Chair Janet Yellen's preferred economic indicators.

PRESIDENT DISBANDS ADVISORY COUNCILS

President Donald Trump disbanded two business advisory councils and abandoned plans to form the Advisory Council on Infrastructure to advise him on his planned \$1 trillion infrastructure investment. Several CEOs quit both the American Manufacturing Council and the Strategic and Policy Forum in protest over Trump's remarks that appeared to confer legitimacy on white supremacists following a violent rally August 12 in Charlottesville, Virginia. Walmart's CEO Doug McMillon had issued a statement to employees before the council was disbanded stating that he felt that the President had missed a major opportunity to bring people together by denouncing white supremacy, but planned to stay on the council in hopes of being able to bring about change.

HOUSING & CONSTRUCTION

HOUSING STARTS FALL 4.8%

Housing starts fell 4.8% in July to a seasonally adjusted annual rate of 1.16 million units after rising to 1.22 million units in June. **Single-family starts fell 0.5%** to a seasonally adjusted annual rate of 856,000 units after June numbers were strongly revised upwards. Multifamily starts fell 15.3% to 299,000 units after rising to 366,000 units in June. **Regional starts were mixed.** Starts rose 0.6% in the South, the nation's largest housing market. Starts fell 1.6% in the West, 15.2% in the Midwest and 15.7% in the Northeast.

BUILDING PERMITS FALL 4.1%

Building permits fell 4.1% in July to a seasonally adjusted annual rate of 1.22 million units after rising to 1.25 million units in June. **Single-family permits held steady at 811,000 units** and multifamily permits fell 11.2% to 412,000 units after jumping to 443,000 units in June. **Regional permit issuance was mixed.** Permits rose 19.2% in the Northeast. Permits fell 1.4% in the South, 7.9% in the West and 17.4% in the Midwest.

NEW-HOME SALES FALL 9.4%

Sales of newly built, single-family homes fell 9.4% in July to a seasonally adjusted annual rate of 571,000 units from an upwardly revised reading in June. It was the lowest sales reading since December 2016. New home sales have risen 9.2% so far this year. The inventory of new homes for sale rose slightly to 276,000 in July, a 5.8-month supply at the current sales pace, up from a 5.4-month supply in June. Sales continue to be held back by shortages of inventory, lots and labor and rising costs for building materials. **Regional sales were mixed.** New home sales rose 6.2% in the Midwest. Sales fell 4.1% in the South, 21.3% in the West and 23.8% in the Northeast. 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 1.3%

Existing home sales fell 1.3% in July to a seasonally adjusted annual rate of 5.44 million units after dropping to a downwardly revised 5.51 million units in June. Sales were 2.1% above July 2016. **Single-family home sales fell 0.8% in July** to an annual rate of 4.84 million units after falling to 4.88 million units in June, but remained 1.7% above the pace a year ago. Total housing inventory at the end of July dropped 1.0% to 1.92 million existing homes available for sale, 9.0% below a year ago. Inventory has now fallen year over year for 26 consecutive months. Un-sold inventory is at a 4.2-month supply at the current sales pace, down from 4.8 months a year ago. **Regional sales were mixed.** Sales rose 2.2% in the South and 5.0% in the West. Sales fell 14.5% in the Northeast and 5.3% in the Midwest. Homes are selling very quickly, with the typical listing on the market for just 30 days. The slowdown was largely due to falling sales in the Midwest and Northeast. Competition among homebuyers is intense, with more than half of the homes sold over the summer on the market for less than one month. Low supplies, affordability and tight credit are keeping the percentage of first-time buyers in the low thirties, down from 35% in 2016.

BUILDER CONFIDENCE RISES TO 68

Builder confidence rose two points to 68 in August after falling to 64 in July, according to the HMI (National Association of Home Builders/Wells Fargo Housing Market Index). NAHB says members are encouraged by rising demand in the new-home market. NAHB expects to see a gradual strengthening of the housing market, but noted that builders continue to face supply-side challenges, including lot and labor shortages and rising costs for building materials. All three HMI components rose in August, with the component gauging current sales conditions rising four points to 74, the component charting sales expectations in the next six months jumping five points to 78 and the component measuring buyer traffic rising one point to 49. The three-month moving averages for regional HMI scores were mixed, with the Northeast rising one point to 48, while the West, Midwest and South remained unchanged at 75, 67 and 66, respectively.

MORTGAGE RATES FALL TO 3.86%

A 30-year fixed-rate mortgage (FRM) fell to 3.86% at the end of August after rising to 3.92% at the end of July. A 30-year FRM was at the lowest rate of the year, thanks to falling yields on the 10-Year Treasury Bond. In August last year 30-year rates averaged 3.7%. Mortgage rates dropped for four consecutive weeks in August, as bond yields lagged on the tepid outlook for inflation.

POWER TOOL INDUSTRY

ROBERT BOSCH TOOL CORPORATION

Robert Bosch intends to make artificial intelligence (AI) a core competence and to build machines that can learn and act intelligently, according to CEO Volkmar Denner. The Bosch Center for Artificial Intelligence (BCAI) is based in Renningen, Germany and expects to have one hundred employees by the end of the year. Bosch also plans to open AI research sites in Palo Alto, California and Bangalore, India.

STANLEY BLACK & DECKER

SB&D opened their new 4,500-square-foot makerspace in Towson, Maryland. The makerspace was created to offer SB&D's employees a place where they could bring innovative new ideas to life. Employees in all departments will be able to use the workshop's tools, materials and experts to learn techniques related to rapid prototyping. The space has machinery for woodworking, metalworking, welding, laser-cutting, 3D printing and more. A virtual reality apparatus is also available for use. Employees can use the space free of charge before or after work or during their lunch breaks, or during work hours with a manager's permission. SB&D's crowdsourcing program for power tools and equipment is headquartered just a few miles from the makerspace. It has reportedly yielded products that increased revenue, grew levels of engagement within the company and resulted in SB&D creating a dedicated team that manages the portal. SB&D is also planning to use the makerspace to get involved with the local maker and education community, and hopes to assist local colleges and universities.

SB&D is preparing to tear down hundreds of thousands of square feet of long-abandoned factory space once known as the Hardware City in New Britain, Connecticut to make way for a huge data center with fuel cell power. SB&D is partnering with tech company Thunderbird, which is planning on remodeling four of the WWII-era buildings into a data center that will accommodate high-demand users such as Yale University, the University of Connecticut and others doing bioscience research. Thunderbird's new project will not interfere with SB&D's remaining manufacturing plant, a modern building that produces tape measures. The remaining historic buildings need to be torn down, as they are beyond salvage. Associations with Stanley are found in many parts of the town, which has AW Stanley Park, Stanley Golf Course, Stanley Street and even the Stanley meeting room at the public library, which is filled with copies of *Stanley World*, the employee magazine that dates back to the 1940s.

TTI/TECHTRONIC INDUSTRIES

First half revenue increased 7.3% to a record U.S. \$2.9 billion. Adjusted for foreign currency, revenue grew 8.1%. The Power Equipment business, which accounts for 85.6% of their business, grew 11.9% compared to the first half of 2016. Milwaukee sales grew 20.1% adjusted for currency. Ryobi brand business grew in the double digits, driven by the RYOBI ONE+ cordless system.

From Their First Half Conference Call with Analysts:

From a geographic perspective, North America accounts for more than 76% of the group's revenue.

Sales in North America grew 8.8%, with Power Equipment delivering double-digit growth.

They have increased their gross margin as a percent of sales for nine consecutive years, from 31.5% in 2008 to 36.6% this year. They expect that trend to continue, as they have a lot of high-margin accretive new product in the pipeline.

One of their measures of productivity is sales growth versus headcount. Their sales grew more than 8%, while their headcount grew 2.7%.

They were impressed with the performance of their largest competitor (SB&D), and proud that they outperformed them substantially.

They believe that SB&D's launch of FlexVolt actually increased their cordless business for both Milwaukee and Ryobi, and they do not believe they lost any market share to SB&D. They also noted that they don't worry about what their competitors are doing, but focus instead on things they can control.

Their research shows that Ryobi has become the number one brand in the world for DIY tools, taking over the top spot from SB&D.

The Ryobi ONE+ now offers more than 100 tools and they are about to launch more in the next six months than in any time during the company's history.

Their outdoor power tools work off the same battery as their power tools, which means that more than 130 tools currently work off the same battery, which has not changed since they launched it 15 years ago, so they have a lot of backwards compatibility. They have also developed a 40-volt platform for Ryobi Outdoor and plan to launch many new products next year.

They are committed to being the global leader in industrial cordless and expect Milwaukee to be number one as they implement their strategies. They are launching many new products in the next six months, including a new family of impact wrenches, along with versions for the automotive market. They will also have a new full-size hacksaw that utilizes the Milwaukee FUEL technology. They will also be introducing the first ever cordless "mud mixer", a device that mixes concrete paint, epoxy and various compounds used on job sites, and the first cordless heat gun.

They also have several new lighting lines for the job site and even lighting products for DIY use that can often be controlled from iPhones.

They are going heavily into the hand tools business, because it has lower distribution and transportation costs

and there are very few returns at the retail level. Every tool they are launching is designed to be innovative, priced at a premium and to outperform the competition.

They plan to grow their business organically and see no need to do acquisitions.

RETAIL

RETAIL SALES RISE 0.6%

Retail sales rose 0.6% in July after falling 0.2% in June. Sales were up 4.6% from July 2016. Nonstore retail sales, which include internet and catalog sales, were up 1.3% for the month and 11.0% compared to July 2016. Building materials and garden equipment sales rose 1.2% for the month and were up 8.3% from last year. Core retail sales, which exclude auto sales, gas and building materials, and factor into GDP, rose 0.5% in July after falling 0.1% in June. Retail sales account for one-third of all consumer spending, with services making up the other two-thirds.

FEDEX WON'T CHARGE A HOLIDAY PREMIUM

FedEx announced that it will not be adding any additional charges for residential deliveries during the holiday season except for packages that are oversized, unauthorized or require additional handling. UPS announced in June that they would be charging extra delivery fees for the holidays to offset additional costs of delivery.

UPS PACKAGING INNOVATION CENTER

UPS opened a gigantic supply chain warehouse near Louisville International Airport dubbed the packaging innovation center. UPS partnered with Sealed Air to create the showroom to test and present innovations in packaging. The center includes machines that help automate packaging and cut down on packaging materials. One of the machines can create different sized custom boxes based on whatever is going inside. Also included were items designed to appeal to the end consumer, like bubble wrap shaped like dog bones and colorfully designed insides of boxes that do a better job of presenting products.

FUEL CELL WARS

Both Walmart and Amazon are doing deals with Plug Power that allow both companies to roll out Plug Power's fuel-cell-powered forklifts and warehouse vehicles to distribution centers. Walmart is currently Plug Power's biggest customer, but Amazon has agreed to spend \$70 million on Plug Power vehicles in return for the right to buy 55.3 million shares in the company, a 19% stake. Walmart will now receive warrants to purchase the exact same number of shares, but at a higher price because Plug Power's stock price has gone up 63% since announcing the Amazon deal. The warrants vest based on how much each retailer spends; they'd need to spend \$600 million each for all of the warrants to vest. Plug Power also sells fuel-cell-powered vehicles to Home Depot. They had 2016 revenue of \$85.9 million.

THE HOME DEPOT

Q2 sales rose 6.2% to \$28.1 billion. Comp sales rose 6.3%, and U.S. stores had a comp sales increase of 6.6%. All three divisions, 19 regions and top 40 markets posted positive comps as well. Mexico and Canada posted positive comps in local currency. A stronger U.S. dollar negatively impacted total sales growth by approximately \$64 million or 0.5%.

From their Q2 Conference Call with Analysts:

Their online business grew 23% in the quarter and represented 6.4% of sales. They remain focused on improving the interconnected experience both in store and online. They believe the power of interconnected retail is behind improving customer satisfaction scores and sales.

They increased their guidance for the year and now expect sales growth of 5.3% and a 5.5% increase in comp sales. They gained approximately 20 basis points of market share in the quarter.

All merchandising departments posted positive comps, with Tools, Flooring, Lumber and Electrical posting double-digit comps for the quarter. Total comp transaction for the quarter grew 2.6% and comp average ticket increased 3.6%. Commodity price inflation in lumber,

building materials and copper positively impacted average ticket growth by 68 basis points.

Transactions over \$900, which currently represent about 22% of U.S. sales, rose 12.4%. Some drivers were appliances, flooring and certain Pro heavy categories. Transactions for tickets under \$50, which now account for 16% of U.S. sales, grew 1.5% in the quarter.

Pro sales outpaced the company average and grew more than twice as fast as DIY sales. Pro sales were driven by both high-and low-spend pros. There were strong comps in several categories, including power tools.

They opened four new stores in the second quarter, including three in the U.S. and one in Mexico.

Inventory rose \$545 million to \$12.9 billion and inventory turns were 5.3 times, up one tenth from last year.

Their delivery business grew every week in the quarter; they now offer two and four hour window options from all stores.

They spent more on digital advertising in the second quarter than they did on TV and radio combined. Their overall advertising spending is up in the low single digits, and digital advertising and marketing now accounts for more than half of their marketing budget.

In the second quarter there were about 424,000 first-time homebuyers, accounting for 38% of all homebuyers. That was an increase of 11% from second quarter last year. First-time homebuyers are good for business, as they often buy homes that need repairs and remodeling. Homes built before 1980 produce an annual spend of \$3,500. Homes built after 2000 produce an annual spend of \$1,500. John Burns Real Estate Consulting group says that for every percentage point improvement in real wages there is a 1% increase in repair and remodeling spending. Real wages after inflation are up 2.2% so far this year.

This year marked the 20th anniversary of Home Depot's in-store kids workshops, which are held the first Saturday of every month. They believe the workshops help

foster the next generation of do-it-yourselfers. Some early participants are now Home Depot associates.

They are working on improving the customer/associate experience in their high-volume stores, where the growth they've been experiencing puts extra pressure on those stores. They will need to invest in solving that situation.

Interline is now live in 1,958 stores. They have 1,500 stores that have next-day access to Interline's products and 458 stores that can offer two-day delivery. They are seeing great activity on a broad base of goods primarily servicing the trades, including plumbing, electrical, hardware and HVAC.

They hired more than 90,000 seasonal associates this year and enhanced their application process through an improved mobile experience, which actually doubled their applicant pool.

500 stores will get updates this year, including signage, lighting, rest rooms, etc.

Other News:

THD has chosen GE Current and Tesla to install solar systems on 50 stores and then sell the power output to THD. Financial terms were not disclosed. THD says the project will reduce electricity grid demand by 30% to 35% annually at each store, the equivalent of powering 2,300 average U.S. homes for a year. THD has a goal of utilizing 135 MW of alternative and renewable energy by 2020. The solar addition will bring their alternative energy footprint to more than 130 MW.

LOWE'S

Q2 sales rose 6.8% to \$19.5 billion, short of expectations. Comp store sales rose 4.5%, ahead of expectations of a 4.3% increase. They expect total sales to grow 5% this year, with comp sales growing 3.5% and the RONA acquisition driving about 2% growth. In addition, they plan to open 25 stores, which accounts for about 1% sales growth. Total sales growth is reduced by about 1.5%

because of the comparison of 52 weeks in 2017 to 53 weeks in 2016.

From their Q2 Conference Call with Analysts:

They achieved positive comps in 13 of 14 regions and in all product categories. Appliances led product category growth with high single digit comps. They were pleased with their comp growth throughout the quarter, but were disappointed in some aspects of their performance.

Total customer transactions grew 3.1% and average ticket grew 3.5% to \$71.40.

RONA sales were approximately \$1 billion or 3% of sales growth. Comp sales rose 4.5% for the quarter with average comp ticket improving 3.6% and transactions growing 0.9%.

They are making great progress integrating RONA and completed the conversion of their first RONA big box store to a Lowe's branded store, which combines the best elements of RONA's strong Pro offerings and the best of Lowe's customer and store experience. They expect the RONA acquisition to culminate in more than \$1 billion in revenue and cost opportunities.

Comp growth in the second quarter was constrained because of disruptions caused by changes to their store staffing model earlier in the year, which became more apparent because improved messaging and an optimized promotional strategy drove more traffic. They reduced the number of assistant store managers and eliminated the department manager role earlier in the year and created service and support managers, and are confident that it is the right model for long-term growth.

They are working to respond to these challenges and plan to invest in incremental customer-facing hours to make sure they are providing an excellent customer experience. They will achieve much of that by retaining some of the seasonal help hired for the busy spring season.

Lowe's.com saw 43% growth in comp sales during the quarter. They upgraded their online shopping experience

a year ago, and were awarded Web Redesign of the Year by *Internet Retailer*.

During the quarter they made progress enhancing the products and services they offer Pros.

Comp sales were balanced between indoor and outdoor categories, with above average comps in appliances, lawn & garden, lumber & building materials and rough plumbing and electrical.

They are continuing to invest in in-store and online in order to enhance the omnichannel customer experience. They are focused on helping DIY and DIFM customers throughout their project journey. They had 43% comp sales growth on lowes.com during the quarter.

They are also leveraging their MyLowe's platform to drive brand loyalty. They've simplified their military recognition program that allows active duty and veterans to register through MyLowe's and receive a 10% discount every day. They are also offering free parcel shipping exclusively for MyLowe's members.

They are working on centralizing the process for providing installation quotes, and will be rolling out that capability over the course of the year, with all U.S. markets online by Q1 2018.

They opened four new stores in the U.S. during the quarter. They plan to open a total of 25 new stores this year, down slightly from original estimates of 35 new stores. Most of the reduction comes from pushing some of the RONA and Orchard Supply stores planned for this year into next year.

They are working hard to improve their competitiveness on both in-stock and online items and improve their value perception, which has put some pressure on gross margins. They are working closely with their vendors to make sure they are improving cost as well as pricing tactics.

Improving productivity is not just about cutting costs it's also about investing back into areas that matter

most to the customer. There was definitely some disruption from implementing their new management model with people settling into new roles, but it is actually progressing faster than they first expected. They are also investing in improving conversion both in store and online.

They believe Pro sales represent about 50% of the home improvement market but only 30% of their sales, so there is an opportunity to grow that business.

Other News:

Lowe's is cutting an undisclosed number of store-level delivery jobs and going to third-party services. This is the fourth round of layoffs Lowe's has announced since last October, including 2,400 jobs at the store level, 100 corporate technology jobs and 125 IT workers.

WALMART

Walmart's Q2 revenue rose 2.1% to \$123.4 billion and comp sales for U.S. stores, excluding fuel, rose 1.7%, with 1.2% growth at Sam's Club and 1.8% growth at Walmart stores. Customer traffic was up 1.3%.

Online sales soared 60%, with much of the growth in food. Walmart now offers online grocery in more than 900 U.S. locations, with food sales making up more than 50% of their revenue. Walmart has invested in acquisitions like Jet.com, but says that organic growth will be the primary driver of online sales.

Walmart is testing Scan & Go in more than a dozen stores in Texas, Florida, South Dakota, Arkansas, Georgia and Kentucky. Customers use handheld scanners and then choose how to pay for their items. They get a digital receipt to show greeters as they leave the store, which theoretically will reduce shoplifting. Walmart dabbled in Scan & Go three years ago with little success.

Walmart filed a patent in the U.S. for an airship-style aircraft to rival Amazon's "airborne fulfillment center," for which a patent was filed last year. The aircraft would travel at heights between 500 ft. and 1,000 ft. and be operated remotely. Walmart had previously filed a patent for in-store drones to stock shelves.

Walmart is piloting grocery delivery via Uber in four test markets, including Tampa Bay, Orlando, Dallas and Phoenix. The Uber deliveries require a \$30 minimum order and there is a \$9.95 delivery charge.

Walmart is reportedly near a pilot deal to offer customers installment loans through financing firm Affirm, which is run by PayPal co-founder Max Levchin. The loans would be geared to large items like tires and other purchases over \$200. Installment loans are designed to appeal to shoppers who want to spread out their payments over time, with interest rates that can range from 10% to 30%. Walmart's credit card is issued by Synchrony Financial; the credit card business is becoming intensely competitive.

Walmart is working with Google to offer hundreds of thousands of items for voice shopping through Google Assistant. They plan to start offering the option in late September. It's Google's biggest retail partnership, as both Google and Walmart attempt to compete with Amazon's Alexa. Apple reportedly has a voice activated device coming out this year. Walmart will be integrating their Easy Reorder feature, which has data on both store and online purchases, into Google Express; shoppers just have to link their Walmart account to Google Express. Personalization typically takes time while the digital assistant learns the shopper's preferences, so linking to Walmart should make voice-activated shopping more attractive to customers. Shoppers will even be able to tell Google Assistant they want to pick up their order in store.

SEARS

Q2 revenue fell 23% to \$4.37 billion. Comp sales fell 11.5%, with sales at Kmart falling 9.4% and sales at Sears stores falling 13.2%. Sears has closed 180 stores thus far this year, and had already planned to close another 150. Now they will close an additional 28 Kmart stores. In March Sears said there was "substantial doubt" they could continue as a viable concern, with intense pressure coming from Walmart, Target and Amazon. Sears has used about \$605 million of their \$1.5 billion revolving credit facility that's due in 2020.

Sears has signed licensing deals for Kenmore home appliances with Cleva North America and for DieHard batteries with Dorcy International in order to expand distribution of the brands outside the U.S. The licensing deal comes on the heels of Sears recent agreement to sell Kenmore products on Amazon and integrate the brand's smart gadgets with Alexa.

ACE HARDWARE

Q2 revenues rose 4.6% to \$1.5 billion. Comp store sales increased 3.2% as reported by the approximately 3,000 Ace retailers who share daily retail sales data. The increase was primarily the result of the combination of more favorable weather and strong retail execution.

Increases were noted across most departments with the largest gains in tools, outdoor living, housewares and impulse. Ace added 27 new domestic stores in the second quarter and cancelled 28 stores, bringing the total number of domestic stores to 4,357.

The Ace Hardware Fall Convention was dedicated to hammering home Ace's message of service, convenience and quality, areas where the co-op believes independents have the upper hand. Brian Wiborg, the new VP of marketing, says Ace intends to exploit core strengths in their messaging for 2018. They plan to invest heavily in what they are calling the "Famous Four" categories: holiday gifts, paint, backyard and bbq and home preservation. Wiborg says they are determined to own those categories. They will spend \$83 million in measured media in 2018 as part of a plan to reach the \$100 million level in advertising by 2020, a big step up from their \$30 million spend in 2013.

They are testing "impulse queues," sophisticated trails of heavy-impulse, high-margin products that lead customers to the cash register. They say so far the test is showing "awesome" results with the one hundred stores that have been early adopters.

Ace offered customers a limited edition 5-gallon bucket for making a donation of \$5 or more to the Children's Miracle Network Hospitals over the first weekend in Au-

gust. Ace has been a CMN partner since 1991, and has raised more than \$80 million for the network.

Joe Jeffries has been promoted to President and COO for Westlake Ace Hardware from his current position as COO and Andrew Schmitt has been promoted to VP Operations from his current position of Director of Retail Operations for Ace's Western Division. Westlake currently has 100 locations.

TRUE VALUE

Revenue fell 1.9% to \$430.4 million. Wholesale sales, on a gross billings basis, rose 0.1%. Comp store sales rose 0.9% and Destination True Value comp store sales rose 1.8%. DTV sales were up 1.1% year to date. True Value stores that remodeled to DTV stores last year saw revenue growth of 5.9% for the first six months of the year. Sales were up in seven of twelve regions and in six of the company's nine product categories. Visits to truevalue.com rose 22% over the quarter with a 19% increase in online sales.

W.W. GRAINGER

DG Macpherson, Grainger's CEO, will assume the additional role of Chairman of the Board October 1, 2017 when Jim Ryan retires as planned. Macpherson's appointment to Chairman is part of the succession plan highlighted in August of last year, when Macpherson was named CEO. Jim Ryan has been with Grainger for nearly 37 years, including the past eight as CEO. Macpherson, who holds a bachelor's degree from Stanford University and an MBA from Northwestern's Kellogg Graduate School of Management, joined Grainger in 2008 after working on behalf of Grainger for six years as a partner and managing director at Boston Consulting Group.

AMAZON

Amazon Web Services had sales of \$4.1 billion for the second quarter, up 42% year over year. AWS's estimated market share is 34%, compared to 11% for Microsoft Azure and 5% for Google. AWS is very profitable, with profits up 28% to \$916 million.

L.L. Bean bested Amazon in the latest Prosper Insights & Analytics annual review of service excellence among retailers, coming in at number one for the third consecutive year. Amazon was number two. Lands' End, Fingerhut and Kohl's rounded out the top five. Others in the top 25 include Lowe's and Walmart.

Amazon Prime membership could surpass half of all U.S. households by the end of the year. A recent survey showed that about 49% of households were Amazon Prime members in July, which adds up to about 54 million subscriptions, up from 46 million a year ago.

Amazon had more than 100,000 robots working in their warehouses and fulfillment centers in July, up from 80,000 in May. Amazon currently employs more than 125,000 full-time fulfillment associates in the U.S. and recently held a huge job fair in hopes of adding another 50,000 associates to the fulfillment network.

MARKET TRENDS

AMERICANS EXPECT TO RETIRE LATER

Americans now expect to retire at an average age of 66, compared with a goal of retirement before 65 a decade ago, according to a Gallup poll. The Social Security full retirement age is 66 for baby boomers born between 1943 and 1954. A survey from the Economic Policy Institute based on 2013 data finds a wide gap between the amounts Americans of different income levels have saved for retirement, with the wealthiest 1% holding \$1.08 million or more, compared with just \$5,000 for the median working-age family. In 2013, nearly nine in 10 families in the top 20% by income had retirement account savings, compared with fewer than one in 10 families in the bottom 20%, according to the EPI.

SMART CITIES HARNESS TECHNOLOGY

Smart city initiatives are popping up around the world as cities attempt to harness technology to improve the lives of their citizens and streamline city management.

Robert Bosch, Facebook, Google, IBM, Cisco, Intel, Microsoft are just a few of the tech giants that are in on the smart city trend and battling for a slice of the \$15 billion that's projected to be spent on software by 2021, according to Juniper Research. Cloud, artificial intelligence, machine learning and IoT technologies are all part of the broader discussion for providing access to the data that cities are managing, such as crime reports, air quality, traffic, utilities, lights, meters and more. Some companies, including GE, have formed divisions focused specifically on smart city programs. Having digital work hubs and other tools that facilitate communication and data sharing will be key to getting smart cities off the ground and actually functioning.

TRACKING CONSTRUCTION PROGRESS

Indoor Reality's 3D web-viewer mapping solution now has a Time Travel mode that allows users to see changes and progress in interior construction over time. Multiple data sets are gathered over time, making it an easier process than the traditional method, which requires managers to photograph the exact same space from the exact same angle over the life of the project. Multiple data sets can easily be aligned to show changes over time. Thus far the capability has proved useful in establishing payments for subcontractors and in documenting insurance claims as well as demonstrating that all outlined steps of the project have been completed as planned.

CONSTRUCTION MANAGEMENT COLLEGE

MAJOR GROWING MORE POPULAR

Majoring in construction management has become more popular among college students, according to a recent report from the National Student Clearinghouse Research Center, a nonprofit organization that collects and distributes education data. Enrollment in construction trades at four-year institutions increased 26.4% between spring 2016 and spring 2017, the largest percentage increase for any discipline. Construction trades, as defined by the National Center for Education Statistics, include a range of subjects, such as carpentry and management. Many four-year schools offer a bachelor's degree in the latter, and industry experts encourage current and prospective students to consider construction management if

they like building things but don't want to get their hands dirty. Industry experts describe construction management as a combination of various disciplines, including architecture, business and engineering. Graduates with this degree are prepared to manage people and each part of the construction process, experts say. Students are attracted by the wide range of skills needed, and the variety of the work. In addition, it attracts people who like to see physical results of their work and like to work with teams. There were just 7,659 undergrads enrolled in a construction trade major in spring 2016, according to the National Student Clearinghouse Research Center. The number of students seeking a bachelor's degree in this field jumped to almost 10,000 by the following spring. While these numbers don't compare with fields that attract undergraduates by the millions, such as business, with more than 1.5 million students enrolled in spring 2017, colleges and universities are increasing their commitment to teaching about construction. There were 60 baccalaureate degree programs for construction management that were accredited by the ACCE in 2006; by the 2015-2016 school year, there were 73 accredited programs.

MILLENNIALS DON'T MIND SHARING DATA

Millennials are more comfortable with data sharing than older generations, according to a June 2017 Bank of America study of US smartphone users. For instance, 45% of millennials were OK with their phones tracking their spending habits, compared with just 26% of all respondents. In addition, 44% of millennials were comfortable with devices tracking their location, compared to 37% of all respondents. In February, Retail Dive and Google conducted a survey that found that millennials ages 25 to 34 were three times more likely than respondents 65 and older to share personal information with their favorite retailer. For those who grew up using smartphones, sharing data may feel perfectly normal. They also expect benefits, including convenience and bargains. Many millennials do not seem to be concerned about the privacy issues that worry their elders, as they think of their smartphones as extensions of themselves and their connection to their social world.

WHAT 55+ HOME BUYERS WANT

More than half (58%) of readers surveyed by *Where to Retire* chose 55+ master planned communities (MPCs) as the type of retirement living they found most attractive. Traditional neighborhoods were the choice of 47%, 35% preferred condos or apartments and 33% selected MPCs that were not age restricted. The top factors for these readers were a low crime rate and having a hospital nearby. Builders are catering to MPCs at all price points, with the annual 50 Best Master-Planned Communities in the U.S. rankings including homes priced from \$80,000 to \$3 million. Of those listed, 38 communities had homes priced at less than \$300,000, with 14 of those priced below \$200,000. There is an overall preference for single-family detached homes that offer all one level living, with an extra bedroom for guests. Other widely desired features for all age groups include energy efficient homes on culs-de sac and near walking trails, parks and retail. The 55+ buyer is also looking for a maintenance-free lifestyle. The number of 55+ households is growing and is expected to continue to grow through 2024, both in absolute numbers and as a share of the population. Baby boomers compose the largest segment of that population, at almost 75 million people.