BOSCH

Market Briefing

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Smart Cities Growing
Artificial Intelligence 2018
The AI Revolution
The Housing Market in 2018
AI Powers Amazon Go
Top Ten Best-Perceived Brands
Fortune's Most Admired Companies

Bosch | Dremel
RotoZip | Vermont American
CST/berger | freud | Sia

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US ECONOMY

Exchange Rates January 31, 2018

Euro	1 Euro = $1.243	$1.00 = 0.804 Euros
Canadian Dollar	1 CAD = $0.799	$1.00 = 1.229 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 109.310 Yen
Chinese Yuan	1 Yuan = $0.159	$1.00 = 6.289 Yuan
Mexican Peso	1 Peso = $0.054	$1.00 = 18.621 Pesos

Market Watch January 31, 2018

DOW	26,149	5.8%
NASDAQ	7,411	7.4%
S&P 500	2,824	5.6%

All three indexes posted strong gains for January, although the market run stalled toward the end of the month as investors grew wary that the Fed might raise rates at their March meeting. The DOW rose 5.8% for the month, closing at 26,149; the tech-heavy NASDAQ rose 7.4%, closing at 7,411 and the S&P, the index most closely followed by economists, rose 5.6%, closing at 2,824.

Consumer Confidence Rises to 125.4

The New York-based Conference Board's Consumer Confidence Index rose to 125.4 in January from an upwardly revised 123.1 in December. The Present Situation Index declined slightly, falling to 155.3 from 156.5. The Expectations Index increased to 105.5 after falling to an upwardly revised 100.8 in December. The Conference Board noted that despite the decline the level of confidence remains historically high among consumers, although there was some ambivalence about the future in the latest survey, possibly because consumers are unsure of how the new tax plan will affect them. Economists note that 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 December after rising an upwardly revised 0.8% in November. Core consumer spending rose 0.3% in December after rising 0.4% in November. Personal incomes rose 0.4% in December after rising 0.3% in November, and wages increased 0.5%. Savings fell to $351.6 billion, the lowest level since December 2007. The savings rate dropped to 2.4%, the lowest rate since September 2005. For all of 2017 the savings rate fell to 3.4%, the lowest level since 2007, and down from 4.9% in 2016. Consumer prices, as measured by the PCE deflator, the Fed's preferred inflation measure, were in line with expectations, increasing 0.1% for the overall index and 0.2% for the PCE deflator excluding volatile items like food and energy.

Consumer Prices Rise 0.1%

The Consumer Price Index (CPI) rose 0.1% in December after rising 0.4% in November. Gains were tempered by a fallback in energy costs as gasoline prices fell 2.7%. The CPI was up 2.1% from December 2016. Core inflation, which excludes food and energy, rose 0.3% in December after rising 0.1% in November and was up 1.8% year over year. Core inflation has consistently been below the Fed's target of 2%. The Fed's preferred inflation measure, the personal consumption expenditures (PCE) price index excluding food and energy has undershot its target of 2% since May 2012. While core inflation is still running below the Fed's target of 2% the recent trend has been strengthening, with core inflation up 2.5% over the fourth quarter.

Unemployment Unchanged at 4.1%

The unemployment rate was unchanged at a 17-year low of 4.1% in January and the economy added 200,000 new jobs, well ahead of economists' expectations. Average hourly earnings rose nine cents, or 0.3%, in January to $26.74, building on December's solid 0.4% gain. That boosted the year-on-year increase in average hourly earnings to 2.9%, the largest rise since June 2009. Wage growth last month was likely supported by increases in the minimum wage which came into effect in 18 states in January. Further gains are expected in February when Walmart raises entry-level wages for hourly employees at its U.S. stores. Annual wage growth is now close to the 3% that economists say is needed to push inflation towards the Federal Reserve's 2% target. Employment gains were widespread in January. Construction payrolls increased by 36,000 jobs after rising 33,000 in December. Retail employment rebounded by 15,400 jobs in January after slumping 25,600 the prior month. Government employment increased by 4,000 jobs following two straight months of declines. There were also increases in payrolls for professional and business services, leisure and hospitality as well as healthcare and social assistance. Economists expect job growth to slow this year as the labor market hits full employment, which will most likely boost wage growth as employers are forced to compete for workers.

Durable Goods Orders Rise 2.9%

Durable goods orders increased 2.9% in December to $249.4 billion after increasing an upwardly revised 1.7% in November. Orders were boosted by a 15.9% surge in orders for commercial aircraft. Excluding the volatile transportation category, new orders increased 0.6% after rising an upwardly revised 0.3% in November. Excluding defense, new orders increased 2.2%. Orders for non-defense capital goods excluding aircraft, a closely watched indicator of business spending, fell 0.3% in December after falling 0.1% in November. Shipments in the same category, which factor into GDP, rose a solid 0.6% in December after rising 1.0% in November. Shipments of core capital goods have now risen for eleven consecutive months. Orders for durable goods were up 5.8% for the full year of 2017, the best showing in six years. The durable goods report is volatile and often subject to sharp revisions.

Chicago PMI Falls to 65.7

The Chicago Purchasing Managers' Index (PMI) fell to 65.7 in January after rising to 67.6 in December. The PMI was up 28.3% compared to January 2017. Three of the five components fell for the month, with New Orders falling to a five-month low and accounting for most of the PMI's decline. Production and Order Backlogs also fell. Prices Paid accelerated, rising to the highest level since September. Steel, wood and resin were all cited as having increased in price. In January, firms were asked how the expected interest rate increase would affect their business. Most thought it would have no effect, with just 3.8% feeling they would be hindered by higher rates. Firms were also asked how they thought the tax reform bill, which was still pending at the time of the survey, would affect them. A majority, 63.5%, thought that everyone would benefit from less red tape; just under 6% felt it would be bad for both their business and the US economy.

Wholesale Prices Fall 0.1%

The producer price index (PPI) fell 0.1% in December, the first drop in headline prices since August 2016. The PPI for final demand slipped 0.1%. The decline followed two consecutive monthly increases of 0.4%. In the 12 months through December, the PPI rose 2.6% after accelerating 3.1% year over year in November. It was the fastest pace of annual increase in six years. Economists had expected the PPI to increase 0.2%. Core producer prices, which exclude food, energy and trade services, edged up 0.1% in December after rising 0.4% in November. Core PPI was up 2.3% from December 2016.

Q4 GDP Rises 2.6%

GDP grew 2.6% in the fourth quarter, below economists' expectations, after growing 3.2% in the third quarter. The economy grew 2.3% in 2017, up from 1.5% in 2016 but below President Trump's targeted growth of 3%. Consumer spending rose a robust 3.8% in the fourth quarter, the fastest pace since fourth quarter 2014 and up from 2.2% growth in the third quarter. The savings rate fell to 2.6% from 3.3% in the third quarter. Imports grew 13.9%, the fastest pace since the third quarter of 2010. International trade trimmed 1.13% from GDP after adding 0.36% in the third quarter. Robust consumer spending limited the accumulation of inventories, which subtracted 0.67% from GDP growth. Business spending on equipment rose 11.4% and investment in new housing jumped 11.6%. Accelerating consumer spending also raised inflation, with the personal consumption expenditures (PCE) excluding food and energy, rising 1.9%, the fastest pace in more than a year. Signs of rising inflation coupled with a tightening labor market could cause the Fed to raise interest rates more aggressively than expected. The Fed has forecast three interest rate hikes this year, the same number as in 2017. Despite failing to hit 3% growth for the year, economists generally agreed that 2017 was one of the best years for the economy in recent years.

Job Openings Fall

Job openings fell by 46,000 to a seasonally adjusted 5.88 million in November, the lowest level since May. The job opening rate was 3.8%, a drop from October's rate of 3.9%. It was the second consecutive month job openings declined. Hiring dropped by 104,000 to 5.49 million in November and the hiring rate fell to 3.7% from 3.8%. Economists expect job growth this year to slow well below the 2017 average of 170,000 jobs per month as the labor market hits full employment. The unemployment rate is at a 17-year low of 4.1% and economists expect it to drop to 3.5% by the end of 2018. Job openings in what has been the troubled retail sector rose by 88,000 in November. Retail lost 67,000 jobs in 2017 as many retailers closed stores and cut staff. Layoffs fell by 7,000 to 1.67 million in November, the lowest level since May. The number of people quitting their jobs dropped slightly, but the quits rate was unchanged at 2.2%. The JOLTS report is expected to remain one of the Fed's preferred economic indicators even though Fed Chair Janet Yellen's term expires in February.

Economic Growth Forecast

S&P Global Ratings raised its short-term economic growth forecasts for the US, citing a modest boost from the tax reform law. According to S&P, the new tax package will increase real annual US GDP growth in 2018 and 2019 by close to 0.35 points. S&P expects the economy to expand by 2.8% this year and 2.2% next year, up from previous forecasts of 2.6% growth this year and 1.9% next year. S&P said that less-generous deductions partially offset the lower tax rates, which are considered to be skewed toward businesses and high-income earners. S&P also forecast that the budget deficit will grow to 4.4% of GDP by 2020, up from 3.5% in 2017 and previous estimates of 3.8%.

NAFTA and the Economy

Pulling out of the North Atlantic Free Trade Agreement (NAFTA) would have a sharp short-term impact on the economy, cutting real GDP growth by 25% to 1.5% compared to the 2.0% forecast and leaving the US with 300,000 fewer jobs by the end of 2019, according to Oxford Economics. However, trade accounts for less than one-third of US GDP, so the researchers report it would not weigh heavily on the economy over the long term. The report also predicts that a NAFTA withdrawal would not significantly reduce the US trade deficit, one of President Trump's goals, but would cause the stock market to fall about 5% by 2019. However, a vast majority of economists surveyed by Reuters believe that NAFTA will probably be renegotiated successfully with only marginal changes, despite the Trump administration's saber-rattling. Only four of 45 economists polled said they thought the deal would be terminated, with the rest expecting an updated trilateral agreement that would not differ radically from the current one.

HOUSING & CONSTRUCTION

Housing Starts Fall 8.2%

Housing starts fell 8.2% in December to a seasonally adjusted annual rate of 1.19 million units after rising to 1.3 million units in November. **Single-family starts fell 11.8%** to a seasonally adjusted annual rate of 836,000 units after rising to an upwardly revised 948,000 in November. For all of 2017, single-family starts rose 8.5%. Multifamily starts rose 1.4% in December, but were down 9.8% for the year. NAHB expects single-family starts to rise 5% this year; multifamily starts are expected to fall slightly. **Starts fell in all regions**, dropping 0.9% in the West, 2.2% in the Midwest, 4.3% in the Northeast and 14.2% in the South, the nation's largest housing market.

Building Permits Fall 0.1%

Building permits overall fell 0.1% in December to 1.302 million units from 1.303 million in November. **Single-family permits rose 1.8%** in December to a post-recession high of 881,000, in line with the NAHB forecast of 5% growth this year for single-family construction. Overall permits were up 2.8% from December 2016. Single-family permits ended 2017 up almost 9% from 2016. **Regional permit issuance was mixed.** Permits rose 43% in the Northeast, 8.7% in the Midwest and 1.7% in the West. Permits declined 11.1% in the South, led by a drop on the multifamily front.

New-Home Sales Fall 9.3%

Sales of newly built, single-family homes fell 9.3% in December to a seasonally adjusted annual rate of 625,000 units after rising to 733,000 units in November. Despite the monthly decline, new home sales rose 8.3% overall in 2017 to 608,000 units. The inventory of new homes for sale rose to 295,000 in December, a 5.7-month supply at the current sales pace. **New home sales fell in all regions,** dropping 2.4% in the Northeast, 9.5% in the West, 9.8% in the South and 10% in the Midwest. 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 3.6%

Total existing home sales fell 3.6% to a seasonally adjusted annual rate of 5.57 million units in December from a downwardly revised 5.78 million in November. Despite the decline, sales were up 1.1% for the year to 5.51 million units, making 2017 the best year for sales in 11 years. **Single-family home sales fell 2.6%** to a seasonally adjusted annual rate of 4.96 million in December after rising to 5.09 million units in November. Unsold inventory fell 11.4% to 1.48 million existing homes available for sale, 10.4% lower than in December 2016. Unsold inventory is at a 3.2-month supply at the current sales pace, down from 3.6 months in December 2016 and the lowest level since NAR began tracking in 1999. The inventory of homes available for sale has fallen for the past 31 months. Sales fell in all regions, dropping 7.5% in the Northeast, 6.3% in the Midwest, 1.7% in the South and 1.6% in the West.

Builder Confidence Falls to 72

Builder confidence fell two points to 72 in January after jumping five points to 74 in December, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). The December reading was the highest level for builder confidence in more than 18 years. All three HMI components registered declines in January. The component measuring buyer traffic fell four points to 54, the index gauging current sales conditions dropped one point to 79 and the index charting sales expectations in the next six months fell one point to 78. Looking at the three-month moving averages for regional HMI scores, the West rose two points to 81, the South increased one point to 73, the Midwest rose one point to 70 and the Northeast jumped five points to 59. NAHB Chief Economist Robert Dietz said that with low unemployment, favorable demographic trends and tight inventory, they expect to see builder confidence continue to rise in 2018.

Remodeling Index Rises to 60

NAHB's Remodeling Market Index (RMI) rose three points to 60 in the fourth quarter of 2017. It was only the second time since 2001 that the reading has reached 60. The RMI has been at or above 50, the level that indicates activity is higher than in the previous quarter, for 19 consecutive quarters. Current market conditions increased four points from the third quarter to 60. Among its three major components, major additions and alterations jumped seven points to 60, minor additions and alternations increased three points to 59 and the home maintenance and repair component rose three points to 61.Calls for bids dropped two points to 56 and the backlog of remodeling jobs jumped six points to 66. NAHB said that the RMI is consistent with strong growth in home improvement spending, although the surge in backlog most likely reflects supply-side challenges, including shortages of skilled labor and rising material prices.

Mortgage Rates Rise to 4.15%

A 30-year fixed-rate mortgage (FRM) rose to 4.15% at the end of January after rising to 3.99% at the end of December. At the end of January last year 30-year rates averaged 4.19%. The increase in rates followed a surge in Treasury yields. Nevertheless, mortgage rates remain quite low and affordable.

POWER TOOL INDUSTRY

Robert Bosch Tool Corporation

Sales for Robert Bosch GmbH increased 6.7% in 2017 to 78 billion euros. Adjusted for exchange rates, that's an increase of 8.3%. Bosch's successful core businesses are fueling Bosch's efforts to become a leading supplier of IoT technology and mobility solutions, according to CFO Professor Stefan Asenkerschbaumer. Connectivity and digitalization have become part of day-to-day business at Bosch, according to Dr. Volkmar Denner, chairman of the board of management. Bosch currently has some 170 IoT projects that address fundamental challenges such as population growth, urbanization, air pollution and climate change. Bosch's Home Connect ecosystem incorporates an app in 12 languages for their smart kitchen appliances. The app has already been downloaded more than 15 million times. Denner went on to say there can be no digital transformation without cultural change and they are rethinking leadership and collaboration, breaking down hierarchies and erasing boundaries between departments and functions. They've already phased out more than two-thirds of corporate red tape and done away with individual targets.

All business sectors played a role in the company's success, with Power Tools sales increasing 4.5% to 18.5 billion euros; sales increased 6.7% adjusted for currency exchange. In

2017 the Bosch Group's workforce grew by some 11,200 associates around the world, and as of the end of the year the Bosch Group employed 400,500 people. For 2018 Bosch expects moderate global economic growth of 2.5% and improved sales despite a weak economic environment. They see a series of economic risks due to geopolitical developments such as Brexit, unpredictable US foreign policy and tensions with North Korea.

Robert Bosch is purchasing a 5% share in Here, a mapping and location services company based in the Netherlands. Dr. Volkmar Denner, chairman of the board of management of Robert Bosch GmbH, said that Industry 4.0, smart homes and smart cities are rapidly growing areas of business for Bosch and the alliance with Here will enhance their ability to build and expand data-driven services.

Robert Bosch opened an Internet of Things (IoT) prototype hub in Berlin, Germany and has assigned more than 250 associates who work at the site. Bosch expects that within the next few years as many as 400 experts will advise and support customers on developing and implementing solutions for Industry 4.0, connected mobility, smart cities and smart homes. Bosch's Software Innovations group is also headquartered on the new campus. Dr. Volkmar Denner, CEO of Bosch, said that they are building bridges between their IoT experts and others in Berlin's creative and digital workplaces.

Stanley Black & Decker

Revenues for 2017 rose 12% to $12.7 billion, with 7% organic growth and 7% growth from acquisitions partially offset by the sale of the Mechanical Security business. Q4 revenues rose 17% to $3.4 billion, with organic growth rising 8%.

From their Q4 conference call with analysts:

Tools and Storage net sales rose 26% for the year with 11% organic growth as acquisitions (+13%), volume (+12%) and currency (+2%) more than offset a 1% decline in prices to support holiday promotions.

Tools and Storage revenues grew 26% in the fourth quarter, with 11% organic growth overall and 8% organic growth in North America, with strong performances across all channels. The US retail channels produced high single digit growth. Canada contributed organic growth of 8%.

They expect Tools and Storage to grow in the mid-single digits in 2018.

CFO Don Allen said that they expect to generate another year of above-market organic growth of 5%. They are expecting commodity inflation of $150 million partially offset by price increases.

Total merger and acquisition-related charges for the fourth quarter were $27.1 million, primarily related to restructuring and integration costs.

They remain confident that they will capture $80 to $90 million in costs synergies from their integration of Newell Tools brands Lenox and Irwin and Craftsman Tools, acquired from Sears.

They are making excellent progress on product development, supply chain deployment and commercial strategy for Craftsman and are confident they will compete a mid-2018 rollout as planned. In addition to partnering with Lowe's and Ace, they will be making Craftsman available on Amazon.

North America's growth was fueled by strong execution and product introductions, including FlexVolt. They are seeing very little cannibalization from Flexvolt and are seeing indications that FlexVolt is stimulating incremental demand for their DeWalt 20 volt cordless power tool system while not compromising growth in corded products.

The time period when FlexVolt was delivering below average margins lasted a little longer than originally projected because of some of the investments they were making in marketing to ensure that people understood the technology. This year they expect FlexVolt margins to be right around line average.

Within Tools and Storage all lines showed high single to double-digit growth for the fourth quarter, with the Power Tool and Equipment group up 13% organically and professional power tools up 15%. Hand tools, accessories and storage organization were up 9%.

They expect the reduction in the corporate tax rate to reduce their effective tax rate by five points overall, although the final impact will be reduced three points due to certain new provisions in the tax law and reduced benefits from previously allowed deductions.

They continue to expect elevated levels of commodity inflation, particularly in tools, and do not expect to see recovery from pricing until late in the second quarter and beyond.

They have created a dedicated team for Craftsman and split them off from the core business. They are developing all new products to go with the brand. While they are committed to launching Craftsman in the second half of the year, customer roll-on plans will be dependent on completion of customer demand plans along with capacity plans.

Demand for the brand is "overwhelming" and they expect demand to exceed supply in 2018. They plan to insource a large number of Craftsman products into their manufacturing and supply chain over the next three years.

They plan to launch about a thousand new products in the core business every year and make 85% of all the products they sell around the world. In addition to that, they have to launch several thousand Craftsman products.

They want to bring as much Craftsman manufacturing back to the US as possible and last year acquired Waterloo manufacturing, a dedicated Craftsman manufacturing facility. They will make more than half of their Craftsman products in the US this year, but it will take about three years before they will get to the same percentage of US manufacturing as they have for their core products. They are not yet ready to update their estimate that Craftsman will add $100 million in incremental sales to the business each year.

FlexVolt is achieving an average rating of 4.9 stars around the world, the highest ratings and reviews they've ever achieved.

Tools margins improved 50 basis points year over year, however, commodity inflation will pressure margins this year.

Other News:

SB&D is acquiring Nelson Fastener Systems. Based in Elyria, Ohio, Nelson manufactures and distributes weld stud fasteners and application equipment for the construction and industrial markets. The $440 million cash deal does not include Nelson's automotive stud welding business. Nelson reportedly had revenues of $200 million for the past 12 months. The deal is expected to close in the first half of 2018.

Trimble

Trimble acquired Stabiplan B.V., a developer and seller of design software for MEP engineering based in the Netherlands. The business will become part of the Buildings and Infrastructure segment. The deal will enable Trimble to strengthen their construction solutions for MEP contractors and engineers and enable automated estimating, project management, modeling, detailing, layout and construction.

RETAIL

Retail Sales Rise 0.4%

Retail sales rose 0.4% in December and November sales were revised up to a 0.9% increase instead of the 0.8% first reported. Retail sales were up 5.4% from December 2016. Retail sales as a whole rose 4.2% in 2017 compared to a 3.2% increase in 2016. The increase in sales for December was supported by a 1.2% rise in sales at gardening and building material stores. Sales for this segment were up 9.9% year over year. Excluding automobiles, gasoline, building materials and food services, core retail sales, which factor into GDP, increased 0.3% in December after climbing a strongly upwardly revised 1.4% in November. Sales at online retailers rose 1.2% after increasing 2.5% in November and were up 12.7% year over year. Retail sales account for about one-third of all consumer spending, with services accounting for the other two-thirds.

Holiday Shopping Update

Holiday sales during November and December grew 5.5% from holiday 2016, to $691.9 billion, as growing wages, stronger employment and higher consumer confidence led to strong spending, according to the National Retail Federation (NRF). The total excludes restaurants, automobile dealers and gas stations but does include $138.4 billion in online and other non-store sales, which were up 11.5% over holiday 2016. Results exceeded forecasts of an increase of between 3.6% and 4.0%. It was the largest increase since a 5.2% year-over-year gain in 2010. NRF numbers are based on data from the Census Bureau. According to Mastercard SpendingPulse, retail sales across the country rose by 4.9% over the holiday season. It was the biggest increase since 2011. Online sales rose 18.1%. Gift card spending declined over the holidays as a share of expenditures, falling to 20.8% from 25% in 2016. It was the lowest share since 2011. That means consumers were spending relatively more on merchandise gifts for the holidays than in the past six holiday seasons. According to One Click retail, Amazon was responsible for 4% of all retail sales in 2017 and 44% of all ecommerce sales. Consumer electronics was the biggest selling category. Reportedly more than 50% of product searches begin on Amazon.

The Home Depot

The Home Depot plans to give US hourly associates a one-time cash bonus of up to $1,000 in the fourth quarter of fiscal year 2017, thanks to savings created by tax reform. The bonus will be paid in addition to their Success Sharing bonuses. They have estimated that the net impact of tax reform on their 2018 fiscal will be positive.

THD will hire 80,000 seasonal associates as they prepare for the busy spring season, in line with the number of seasonal hires made last year.

Lowe’s

Raymond James & Associates, the broker-dealer subsidiary of Raymond James Financial, is suing Lowe’s for allegedly breaching their investment banking contract when Lowe’s bought Maintenance Supply Headquarters in June for $512 million dollars. Lowe’s entered into an investment banking agreement with Raymond James in March 2015, with Raymond James acting on Lowe’s behalf, contacting specialty distribution businesses that Lowe’s might want to acquire. According to the suit, Raymond James brought Maintenance Supply Headquarters to Lowe’s attention, but Lowe’s declined to engage them in connection with that deal, allegedly in violation of their agreement. Lowe’s did pay Raymond James as agreed when they acquired Central Wholesalers in November 2016.

Lowe’s will add 53,000 seasonal staffers for the busy spring and summer sales season. Seasonal employees typically work from March through September. Lowe’s added 45,000 seasonal employees in 2017 after cutting 2,400 employees in January.

Walmart

Walmart is closing 10% of their 660 Sam’s Club stores. About a dozen of the stores will become ecommerce fulfillment centers. Sam’s said that all the stores being closed were underperformers built in locations where population had not grown as anticipated. The move will eliminate about 10,000 jobs. In recent quarters Sam’s has reported higher sales, helped by rising ecommerce sales and a focus on fresh food. But Sam’s Club performance has always lagged behind rival Costco. In the most recent quarter Sam’s comp store sales rose 2.8% and Costco’s comp store sales rose 7.9%.

Walmart cut about 1,000 corporate positions before the end of their fiscal year (January 31). According to the *Wall Street Journal,* the cuts were broad-based and primarily affected workers at Walmart’s headquarters in Bentonville. Walmart also eliminated about 1,000 positions in January 2017, including 511 in Bentonville.

Walmart also announced that they will raise wages for US workers to $11 an hour and pay special bonuses of up to $1,000 per worker in the wake of tax code changes that cut the corporate tax rate in the US from 35% to 21%. Walmart currently employs about 1.5 million people in the US, and until now has paid entry level applicants $9 to $10 an hour. Target recently raised their starting pay to $11 an hour and Costco starts hourly staff at $13.

Walmart plans to scale back on the number of co-managers for stores, and reportedly plans to remove about 3,500 co-managers and add about 1,700 lower-paying assistant store manager positions. Walmart says the change will more clearly define the co-manager job as a steppingstone for a store manager role. Walmart says retail is changing rapidly and they are transforming to meet the needs of their customers and streamline their business. Reportedly, smaller stores with less than $80 million in annual sales will not have comanagers, stores between $80 million and $90 million will have one, stores from $90 million to $125 million will have two and the highest-volume locations will have three.

CEO Doug McMillon said that they are still analyzing the

impact of the new tax law, but plan to earmark windfall funds for training, lower prices and technology investments.

Walmart is rolling out a service that lets shoppers scan and pay for items without going through checkout lanes. Walmart will be introducing the smartphone application Scan & Go to an additional 100 stores in 33 states over the next several weeks. The move is part of Walmart's efforts to make shopping in stores easier. Walmart has already rolled out their mobile payment app, Walmart Pay, across their 4,700 US stores and has increased the number of self-checkout lanes, as well as expanded and improved pickup options. Some Walmart stores will have handheld devices at kiosks so customers can try the service before downloading the app. Sam's Club already offers Scan & Go in all of their US stores.

Judith McKenna was named President and CEO of Walmart International, Walmart's second-largest operating segment. She's succeeding David Cheesewright, who has been in the role since 2014 and recently announced he wanted to retire from a full-time role. He'll stay with Walmart through March, then consult on specific projects. McKenna has been with Walmart since joining Asda, their U.K. operation, in 1996. She was most recently EVP and COO for Walmart US.

Sears

Sears reportedly had a miserable holiday season, with comp store sales falling 16% to 17% for the first two months of the fourth quarter.

Sears announced another round of store closures, with an additional 103 locations to be closed by spring. Sears has raised $100 million in new financing and is seeking to borrow an additional $200 million from other parties. They are also actively pursuing "transactions that will generate liquidity." Sears has a significant amount of debt coming due this year, but it's well secured. Analysts say Sears will most likely muddle through another year without having to seek the protection of bankruptcy thanks to the deep pockets of CEO Eddie Lampert.

ACE Hardware

Ace Hardware is reportedly in preliminary talks with Kroger to create a partnership that analysts speculate would most likely feature a "store within a store" that would offer Ace's hardware items to Kroger shoppers. Ace has been offering $150,000 to owners of stores that are less than 5,000 square feet to adopt the store-within-a-store model inside grocery or paint stores. A partnership with paint chain Benjamin Moore has already created more than 400 Ace express stores. Kroger has about 2,800 stores nationwide.

Ace won J.D. Power's top spot in their Customer Satisfaction survey in the Home Improvement Retail Stores category. It was the eleventh consecutive year Ace won the top award in the category.

Westlake Ace Hardware is acquiring Washington-based Dennis Co., which owns five retail stores. The deal will bring Westlake's total store count to 121 in 10 states. In November Westlake acquired Buikema's Ace Hardware in Illinois. Westlake is the largest member of the Ace Hardware Cooperative.

W. W. Grainger

Sales for the fiscal year of 2017 were up 3% compared to 2016 and gross profit dollars were flat. Operating expenses increased 3% and operating earnings fell 8%. Results for the fourth quarter were much better than expectations, with total company sales up 7%. That was made up of an 11% increase in volume that was partially offset by a 3% decline in price. They also had a 1% decline due to specialty business divestitures in the US. Their online business continued to drive strong growth and profitability.

Sales in Canada were up 5% in US dollars and were flat in local currency. They introduced price increases in the second half of the quarter in Canada and are pleased with the response. Price was up 4% for the quarter and volume was down 4% due to price increases and branch closures. Operating expenses increased 2% in local currency as they made investments initiating the turnaround in Canada. They are in the midst of a substantial transformation of the business in Canada and are moving very quickly to reset it. They are closing unproductive branches, leveraging the US business and improving service by leveraging their distribution network in Canada and the US. They are also improving their large customer contact performance. They believe they are making strong progress on all their initiatives in Canada.

They are continuing to see strong volume response to their pricing actions and improved demand in the US. Sales were up 5% in the US, which included 11% volume growth and price deflation of 5%. Improved pricing resonates with both mid-and large-sized customers. Volume with their large customers has increased 8% compared to 2016. Both spot buying and noncontract large customers had stronger volume growth than the average for large customers in the quarter. US mid-size customers continue to exceed their expectations, with mid-size customer volume increasing 26% over 2016. For the first time in a long time they are seeing significant mid-size volume growth at attractive margins.

They continue to expect cost takeout and productivity of $90 to $120 million in the US and $50 million to $70 million in Canada.

They expect higher sales, earnings and operating margins this year. They plan to increase their investments in digital.

Amazon

Amazon named 20 finalists in the competition to be the host city for Amazon's second US headquarters. The winners included 19 US cities and Toronto, Canada. Many of the finalists, including Dallas, Denver, Raleigh and Washington, D.C. were widely expected to be contenders. Amazon's selection of Columbus, Indianapolis, Nashville and Miami was more unexpected. Los Angeles was the only West Coast city to make the cut. Amazon provided few details about how they picked the finalists, but according to anonymous sources the process was conducted by a team of about a dozen people within Amazon. A company that specializes in comparing communities has analyzed the cities on the short list and predicts that the winner will be Atlanta. *The Wall Street Journal* ranked Dallas as the best bet, and real estate research firm Reis picked New York City.

Amazon shipped more than 5 billion items worldwide through Amazon Prime in 2017. It was the first time Amazon has revealed Prime shipment numbers. Amazon also increased their fulfillment and shipping network square footage by more than 30% in 2017 and added four million Prime members. Amazon still has not released the actual number of Prime members but Consumer Intelligence Research Partners estimates Prime has about 90 million subscribers and that the average Prime member spends $1,300 annually with Amazon, compared to about $700 for customers who are not Prime members. Revenue from subscriptions increased 59% in the third quarter compared to the same period in 2016, according to Amazon. Amazon raised the monthly fee for Prime members from $10.99 to $12.99 per month, an increase of nearly 20%. They also increased the cost of a student membership from $5.49 to $6.49 per month. The cost for members who subscribe annually remained at $99.

Amazon is reportedly in talks with several consumer products companies about advertising products on Amazon's voice-controlled Echo devices, according to CNBC, although Amazon says they have no plans to add advertising to Alexa. CNBC said that one of the tactics under consideration is letting companies target users based on past shopping behavior, for example Alexa may suggest to a shopper who bought Clorox Pine-Sol that they might want to consider Clorox disinfecting wipes.

In 2017, more than 300,000 US-based small and medium-sized businesses joined Amazon Marketplace. More than 140,000 of them surpassed $100,000 in sales on Amazon in 2017. Amazon Lending, a program launched in 2011, loaned more than $3 billion to small businesses on Amazon. Amazon Handmade expanded to encompass 10 categories offering customers more than one million handcrafted items from thousands of artisans and small business owners across all 50 states and more than 60 countries.

Amazon will open an innovation center in Shanghai as part of Shanghai's smart city plan. Amazon Web Services (AWS) will build the Shanghai-Amazon AWS United Innovation center that will build a smart city experience and exhibition, foster professionals on big data and set up international incubators in Jing'an.

Amazon acquired advanced security threat hunting and investigating company Sqrrl, which will become part of Amazon Web Services. Terms of the deal were not disclosed.

CANADA SNAPSHOT

GDP Grows 0.4%

The Canadian economy grew 0.4% in November after stalling out in October, and was up 3.5% from November 2016, according to Statistics Canada. Results matched economists' expectations. The factory sector was the driving force behind the gain, with manufacturing increasing 1.8% month-over-month, the largest rise since February 2014. The production of durable goods jumped 2.5%, the biggest gain in nearly six years, on big gains in auto manufacturing and plants returning to production that had been shut down in September and October. Overall, the goods-producing side of the economy climbed 0.8% after falling 0.5% in October. Canada's services-producing industries, which account for roughly two-thirds of total output, climbed 0.35 in November on strength from real estate and wholesale and retail trade.

2018 Economic Forecast

The *Globe and Mail* reports that 2017 turned out better than expected, as European elections did not produce extreme governments and gridlock characterized much of US policy, which limited the impact of President Trump's agenda. The world economy strengthened and the US economy is now in its ninth consecutive year of growth, one of the longest expansions on record. Rebalancing US monetary policy could still produce economic risks to Canada. Inflation is less of a concern in Europe. Economic growth in continental Europe is expected to slow to about 2% this year from 2.3% in 2017. While Brexit did not have a big negative effect on the British economy in 2017, it is likely that the negative fallout will appear this year as Britain and the European Union go through difficult negotiations. Canada's economy grew 3% in 2017, the largest gain among the Group of Seven economies. It is believed the pace of Canadian economic growth will slow to about 2% this year. With low unemployment, wage pressures are expected to rise, with minimum-wage increases in several provinces adding to the wage and price pressures. Canada needs to keep NAFTA negotiations on track as the collapse of this agreement has outsized risks for the Canadian economy. The *Globe and Mail* noted that Canada must be more competitive on the world stage and that nearly half of Canadian businesses cite government policy as a barrier to investment.

Canada Files WTO Complaint

Canada has filed a complaint with the World Trade Organization (WTO), accusing the US of breaking international trade rules. The complaint targets US practices tied to tariffs imposed for alleged subsidies and below-cost product sales. The action comes amid disputes between the two countries over issues such as dairy, aircraft sales and lumber.

Bank of Canada Raises Rates

The Bank of Canada (BOC) raised interest rates to 1.25% in mid-January, the central bank's third rate increase since last summer. The bank noted that while more rate increases are likely over time, the unknowns surrounding the future of NAFTA and the potential negatives for Canada were shadowing its outlook. In response to the increase, Royal Bank of Canada (RBC) was first among Canada's banks to raise its prime lending rate by a quarter of a percentage point, to 3.45%. The BOC also warned that lower corporate taxes in the US would encourage firms to redirect some of their business investments. They also predicted that Canada will see a small benefit from the US tax changes due to increased demand.

Unemployment Rises to 5.9%

Unemployment rose in January and the economy shed 88,000 jobs after two months of increases, according to Canada's Labor Force Survey. The decline took economists by surprise, and was the biggest drop in jobs since January 2009, when the economy shed more than 125,000 jobs. On a year-over-year basis, employment grew by 289,000 or 1.6%.The Canadian construction sector lost 15,000 jobs in January. The latest jobs numbers will most likely cause the Bank of Canada to take a more cautious approach to raising interest rates.

Consumer Confidence Slips

Consumer confidence slipped in January after increasing to 62.7 in December, according to The Conference Board of Canada's Index of Consumer Confidence. The Index rose steadily through 2017, but Canadians are less confident starting 2018. While the positive sentiment about their current and future finances improved, Canadians became more pessimistic about the outlook for the labour market and are questioning whether now is a good time to make a major purchase. Every region saw a decline in the index this month except for Atlantic Canada. The monthly Index of Consumer Confidence is constructed from responses to four attitudinal questions posed to a random sample of Canadian households.

Consumer Prices Rise 1.9%

The consumer price index (CPI) rose 1.9% in December on a year-over-year basis after rising 2.1% in November, according to Statistics Canada. CPI-trim, which filters out extreme price changes, rose to 1.9% from 1.8% in November and CPI-common, which filters out prices that changed due to extraordinary circumstances, climbed to 1.6% from 1.5%. CPI-median was unchanged compared to November at 1.9%. Economists said the consumer price index provides a bit more confirmation that the interest rate hike was justified from an economic fundamentals point of view. The Bank of Canada aims to keep inflation at 2%, the midpoint of a target range of one to three percent over the medium term. A stronger Canadian dollar could lead to some deflationary price pressure, but inflation is likely to accelerate over the rest of the year. Prices were up in seven of the eight major categories, with the transportation index, which includes gasoline, and the shelter group leading the way. Transportation prices were up 4.9% from December 2016, with gas climbing 12.2% after jumping 19.6% in November. The shelter index climbed 1.4%.

Canada U.S. Trade Updates

The latest round of NAFTA talks showed promising signs of flexibility among the trading partners on the thorniest issues. The sixth round of negotiations were marked by cautious optimism, with broad discussion about the biggest sticking points. President Donald Trump toned down his rhetoric over the North American Free Trade Agreement, and economists are generally predicting that despite all the saber-rattling, NAFTA will be renegotiated. Only four of 45 economists polled by Reuters said they thought the deal would be terminated, with the rest expecting an updated trilateral agreement that would not differ radically from the current one.

Housing and Construction News

Housing starts fell 13.8% month on month in December after jumping 13.1% in November. Starts fell to 216,980 annual units, still a very healthy level. Urban housing starts fell sharply, declining 15.1%, mostly due to a 22.0% drop in multi-family units. Urban single-family units and rural housing starts increased 4.7% and 3.3% respectively. In 2017 housing starts averaged 220,544 units, a 10-year high. Housing starts are expected to average about 200,000 this year. Rising interest rates and more stringent lending rules are expected to weigh on the market this year.

The value of building permits issued by Canadian municipalities declined 7.7% to $7.7 billion in November, the first decrease in three months. Nationally, the value of permits for all building components declined, with the exception of single-family dwellings, which remained at $2.6 billion in November after hitting a peak of $2.9 billion in October. The value of building permits for non-residential structures fell 12.3% to $2.9 billion in November, following two monthly increases. The decline was spread over the three non-residential components (commercial, industrial and institutional).

As of November, Canadian municipalities had issued over $100 million more in building permits in 2017 compared to the 2016 total, led by higher construction intentions for universities, hospitals and manufacturing plants. Ontario led the rise in November, as the value of permits issued for single-family dwellings in the province rose 4.3% to $1.2 billion, accounting for 46.0% of the national total.

Existing home sales in Canada rose 4.5% in December from November, the fifth consecutive monthly increase in sales. Sales were up 4.1% from December 2016 and home prices were up 9.1% over the same period. The number of new listings rose 3.3% in December and inventory fell to a 4.5-months supply. Analysts say some of the increases over the past several months were due to people trying to avoid mortgage rule changes that took effect in January.

Royal Bank of Canada (RBC) increased their five-year fixed mortgage rate in mid-January to 5.14%, the first time rates have been over 5% in four years. Qualifying for a mortgage at that rate would cut a borrower's maximum mortgage amount by 1.4%.

Retail Sales Rise 0.2%

Retail sales increased for the third consecutive month in November, rising 0.2% to $50.1 billion. Sales were up in 6 of 11 subsectors, representing 37% of total retail trade. Higher sales at gasoline stations, electronics and appliance stores and general merchandise stores offset lower receipts at new car dealers. Excluding motor vehicle and parts dealers, retail sales rose 1.6%. After removing the effects of price changes, retail sales in volume terms increased 0.3%. Sales were up in five provinces, led by Quebec, where sales rose 0.9%. Sales declined in Newfoundland, Labrador and Vancouver, and were unchanged in British Columbia. On an unadjusted basis, retail e-commerce sales were $1.8 billion in November, accounting for 3.5% of total retail trade, the highest proportion of total retail sales in 2017. On a year-over-year basis, retail e-commerce increased 25.5%, while total unadjusted retail sales rose 7.4%. In Canada, retail sales account for about half of all consumer spending, and are considered a proxy for overall consumer spending.

Canada Retail Notes

Lowe's Canada announced that 17 Marcil stores located in Quebec will be converted to the Rona banner at the end of February. According to Lowe's, the objective is to make Rona the top banner in the building centre market, which includes small to medium stores in the country known as "proximity stores." Rona and Mercil operate in the same market segment, have complementary locations and both serve a large client base of contractors and pros. Consumers who shop at Marcil will see the products available to them double, going from approximately 20,000 items to more than 40,000 products in store and on the rona.ca site, according to Lowe's Canada.

Walmart Canada launched two distribution hubs for ecommerce orders and fresh food distribution. The new storefronts could eventually be used as physical stores, according to a Walmart Canada spokesperson. It will be Walmart's first push into densely populated urban settings in Canada. As in the US, Walmart Canada does not charge for pick-up orders. Walmart has teamed up with real estate partner SmartCentres, which runs Penguin Pick-Up locations across Canada.

Canadian businesses are slower to adopt new technology than their European and American counterparts, according to Canada's head of Amazon Web Services (AWS), Eric Gales. He went on to explain that in the past Canadian companies were slow to adopt new technology because doing so was expensive and time consuming. But today technology is getting much cheaper and easier to implement. Last year a study funded by Intel and Dell and fielded by research firm PSB showed that 35% of Canadians think that the technology they have at home is more advanced than the technology at their office.

MARKET TRENDS

Smart Cities Growing

Bosch's vision for the future was outlined by Mike Mansuetti, president, Bosch North America and Stefan Hartung, member of the board of management of Robert Bosh GmbH at the Consumer Electronics Show in January. Much of their vision is aimed at the growing smart cities market. Globally, the smart city market is booming, with sales expected to grow 19% annually, reaching as much as $800 billion worldwide by 2020. Mansuetti predicted that at least 80 urban areas worldwide will be smart by 2025. Barcelona, Seoul and London were cited as places already pursuing smart city initiatives, as well as Columbus, Ohio, winner of the US Department of Transportation Smart City Challenge. Las Vegas recently announced a $500 million dollar investment in smart city infrastructure over the next seven years. The arrival of the Internet of Things (IoT) has made smart city initiatives both possible and economically viable. They predicted that by 2025, 34 cities worldwide will have a population of more than 10 million, and by 2050, two-thirds of the world's population will live in these megacities. Bosch says their sensors are the eyes and ears of the connected city, and their software is the city's brain. Of Bosch's nearly 400,000 associates worldwide, more than 20,000 are software engineers, nearly 20% of whom work exclusively on the IoT. Over the past 18 months Bosch has implemented some 100 IoT projects and plans to launch the Bosch IoT cloud in North America later this spring. This year's Consumer Electronics Show featured a section dedicated to Smart Cities technologies, with more than 40 exhibitors.

Artificial Intelligence 2018

***Search Marketing Daily* interviewed many of the top marketers in the AI industry and reviewed their predictions for this year.** They believe that AI and audience targeting will become more important this year and will drive change across disciplines. Machine learning will be integrated into tools to make sense of the data and optimize messaging and campaigns in real time. Marketers will develop a keyword and audience strategy as audience-targeting capabilities expand and become more complex. The use of chatbots to help brands communicate with consumer will grow as voice search becomes more widespread. New search engines will emerge, including

Facebook and Pinterest, companies that have not yet commercialized the billions of searches that take place on their platforms. Google rolled out Knowledge Panel-based Q&A last year and the technology is expected to impact retailers of all sizes this year, as it shifts control of the discussion for branded local results to the consumer.

The AI Revolution

Alibaba's deep neural network and an AI software developed by Microsoft have outscored humans on a Stanford University reading comprehension test, which demanded answers to more than 100,000 questions. The win has broader implications for how companies deploy machine learning to replace customer service jobs that have so far relied on call-center employees to handle inquiries. Scores: Microsoft 82.65; Alibaba 82.44; Humans 82.30.

The Housing Market in 2018

NAHB says that recent tax reform should spur job and economic growth and keep single-family housing production on a gradual upward trajectory. NAHB expects tax reform to boost GDP growth to 2.6% this year. NAHB also says that there may be some adverse effects in high-tax jurisdictions where people taking out new mortgages over $750,000 will no longer be able to deduct the interest they pay on the excess amount. NAHB Is projecting 2.7% growth in overall housing starts this year to 1.25 million units and 5% growth in single-family starts to 893,000 units. Single-family starts are expected to gradually increase from 63% of what is considered normal to 73% by the fourth quarter of 2019. Residential remodeling activity is expected to grow 7% this year as more homeowners decide to stay put and invest in their home rather than move. Multifamily starts are expected to drop 1.6% this year to 354,000 units, a level that is seen as sustainable. NAHB Chief Economist Robert Dietz said that tax reform could lead to 1 million workers entering the labor force during the next 10 years, but this year builders will continue to deal with ongoing supply-side headwinds, including an increasing number of unfilled construction jobs, a shortage of buildable lots and slow growth in acquisition, development and construction loan activity that is not keeping pace with rising demand. Regulatory costs, including building codes and land use, have gone up 29% over the past five years. The softwood lumber dispute between the US and Canada has increased the price of softwood lumber by 20% over the past year.

Artificial Intelligence Powers Amazon Go

Amazon opened their artificial intelligence-powered Amazon Go store in downtown Seattle after more than a year of testing the concept with employees. The store is on the bottom floor of Amazon's Seattle headquarters. Shoppers scan their smartphone with the Amazon Go app at a turnstile, pick out the items they want and leave without needing to go through a checkout line. The concept combines computer vision, machine learning algorithms and sensors to tell what people have purchased and then automatically charges their Amazon account. If someone picks up an item and then puts it back, they're not charged. Amazon says the store still has plenty of employees making fresh food, stocking shelves and helping customers.

Top Ten Best-Perceived Brands

Ad awareness was down across the board even for the brands in the top ten, according to the annual brand perception and awareness study from YouGov BrandIndex. Half of the top 10 best-perceived brands were new, an usually high number. The top 10 were: Amazon, Netflix, Amazon Prime, YouTube, Google, Nike, Dawn, M&Ms, iPhone and Apple. Falling off the top 10 were Lowe's and Home Depot. Among the brands with the largest gains in positive perception was Walmart. Brands with the highest ad awareness included Walmart and Home Depot.

Fortune's Most Admired Companies

Several retailers made *Fortune Magazine's* Global Top 50 List, including Amazon (2), Costco (12), Home Depot (22) Walmart (26) Target (38). Apple took the top spot on the list and Google's parent company Alphabet was number 3. Fortune surveyed 680 executives from more than 50 industries. The publication specifically asked about the companies that executives admired most inside and outside of their own fields of work. In total, *Fortune* uses the opinions of 3,900 executives, directors, and securities analysts to create its list.