BOSCH

Market Briefing

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Technology Monitors Workers
Interacting with Customers is Key
Nest Moving Back to Google
Consumers on Hi Tech Shopping

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

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US ECONOMY

Exchange Rates March 1, 2018

Euro	1 Euro = $1.218	$1.00 = 0.821 Euros
Canadian Dollar	1 CAD = $0.778	$1.00 = 1.285 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 106.773 Yen
Chinese Yuan	1 Yuan = $0.157	$1.00 = 6.346 Yuan
Mexican Peso	1 Peso = $0.053	$1.00 = 18.901 Pesos

Market Watch February 28, 2018

DOW	25,029	- 4.3%
NASDAQ	7,273	- 1.9%
S&P 500	2,714	- 1.1%

All three indexes finished February with losses as markets reacted badly to some weaker than expected economic news and rising inflation. It was the worst monthly drop for the DOW and S&P in two years. The DOW fell 4.3% for the month, closing at 25,029; the tech-heavy NASDAQ dropped 1.9%, closing at 7,273 and the S&P, the index most closely followed by economists, fell 1.1%, closing at 2,714.

Consumer Confidence Rises to 130.8

The New York-based Conference Board's Consumer Confidence Index rose to 130.8 in February after rising to 125.4 in January. The Present Situation Index increased to 162.4 after declining slightly to a downwardly revised 154.7 in February. The Expectations Index continued to increase, rising to 109.7 from 104.0. It was the highest level on consumer confidence since November 2000. Consumers are optimistic about their short-term prospects and remain confident that the economy will continue expanding at a strong pace over the coming months. 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 0.2%

Consumer spending growth slowed to 0.2% in January from 0.4% in December. It was the smallest increase in consumer spending since August. Core consumer spending fell 0.1% after rising 0.3% in December. Personal incomes rose 0.4% in January after rising by the same amount in December and wages increased 0.5% for the second consecutive month. The savings rate increased to 3.2% from 2.5% in December. The Commerce Department estimated that the tax package reduced personal income taxed by $115.5 billion at an annual rate. Consumer prices, as measured by the PCE deflator, the Fed's preferred inflation measure, rose 0.4% after rising 0.1% in December. It was the biggest increase since September. In the 12 months through January, the PCE price index rose 1.7%. Excluding the volatile food and energy components, the PCE price index rose 0.3% in January, the largest gain since January 2017. The core PCE price index rose 0.3% in January after rising 0.2% in December and was up 1.5% from January 2017. 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

Consumer Prices Rise 0.5%

The Consumer Price Index (CPI) jumped 0.5% in January after rising 0.1% in December. It was the biggest increase in five months. The CPI was up 2.1% over the past twelve months, unchanged from December's year-over-year increase. Core inflation, which excludes food and energy, rose 0.3% in January after rising by the same percentage in December and was up 1.8% year over year. Core inflation has consistently been below the Fed's target of 2%. Wall Street has been concerned that higher inflation will force the Federal Reserve to raise interest rates more aggressively which could in turn dampen the economic expansion. But most economists believe that fear is overblown, and while inflation may hover around 2% this year, it is unlikely to rise further in the short term. Gains in the CPI were tempered by a fallback in energy costs as gasoline prices fell 2.7%.

Unemployment Remains at 4.1%

The economy added 313,000 new jobs in February and the unemployment rate remained at a 17-year low of 4.1%. It was the biggest gain in jobs in more than a year and a half and was much higher than the 222,000 jobs economists were expecting. Job gains for December and January were also revised up by a total of 54,000 jobs. Altogether the economy has added an average of 242,000 new jobs in the past three months, a big improvement from the 182,000 monthly average in 2017. Construction companies hired 61,000 people, the biggest increase in 11 years. Retailers added 50,000 jobs and manufacturing added 31,000. However, wage growth is not keeping up. Hourly pay rose 4 cents to $26.75 per hour but the yearly increase in pay slipped to just 2.6% from a revised 2.8% in January. The strong report makes it virtually certain that the Fed will raise interest rates when the board meets later in March.

Durable Goods Orders Drop 3.7%

Durable goods orders dropped 3.7% in January after increasing 2.9% in December. It was the biggest drop in durable goods orders since last summer. The big decline was largely due to a sharp drop in contracts for commercial aircraft. New orders for nondefense capital goods excluding aircraft shrank 0.2% in January after dropping 0.6% in December, the first back-to-back decline in core orders since spring 2016. Businesses boosted investment at the fastest pace in six years in 2017, and core orders rose in all but two months. The durable goods report is volatile and often subject to sharp revisions.

Chicago PMI Falls to 61.9

The Chicago Purchasing Managers' Index (PMI) fell to 61.9 in February after falling to 65.7 in January. The PMI was up 8% compared to February 2017 and remained slightly above the average reading for 2017 of 60.8. All five components fell for the month, with New Orders falling to a six-month low and contributing the most to the PMI's decline. Production also fell to a level last seen in September. Prices Paid remained elevated, although this indicator dropped from January's four-month high. Steel, wood, foam and alloy were reported as being particularly expensive. In February, firms were asked how input prices would impact them over the coming 12 months. Exactly half of the firms said they expected input prices to weigh on and challenge regular business operations, while 6% thought input prices would help them. The remaining 44% of respondents thought input prices would have no effect on their business.

Wholesale Prices Rise 0.4%

The producer price index (PPI) rose 0.4% in January after falling 0.1% in December, resuming the upward climb in producer prices that has been going on since August 2016. Results exceeded economists' expectations. Prices were up 2.7% from January 2017. Energy prices accounted for much of the increase, rising 3.4% from December. Core producer prices, which exclude food, energy and trade services, were up 0.4% in January after edging up 0.1% in December. Core PPI was up 2.5% from January 2017, the biggest jump since 2014. While inflation has definitely picked up, analysts say it is doing so at a manageable pace that is not likely to alter the Fed's methodical plan of small increases in interest rates.

Q4 GDP Revised Down to 2.5%

GDP grew a downwardly revised 2.5% in the fourth quarter, slightly weaker than the 2.6% first reported. Output was revised down because companies drew down inventories more than previously estimated, and business investment was slightly weaker than initially reported, growing 6.6% rather than 6.8%. However, growth in business spending on equipment was revised up to an 11.8% rate from the 11.4% first reported. Growth in consumer spending for the quarter was unrevised at a strong 3.8%, the most robust pace since the fourth quarter of 2014. The GDP revision, combined with sluggish retail sales and durable goods orders, have caused some analysts to revise their forecasts for first quarter growth down significantly, to ranges between 1.8% and 2.6%. Analysts said that unusually severe winter weather may have impacted growth, and also considered the fact that first quarter growth is typically slower than in any other quarter. Another measure of GDP that some economists think better reflects underlying demand in the economy, known as real final sales, was actually revised up to show a 3.3% gain for Q4 rather than the 3.2% increase first reported.

Job Openings Fall Again

Job openings fell by 167,000 in December to a seasonally adjusted 5.8 million. The drop in openings was led by the professional and business services sector, where job openings dropped by 119,000. Job openings in retail fell by 85,000 and vacancies in construction dropped 52,000. The quits rate rose to 2.2% from 2.1% in November as 3.259 million workers voluntarily left their jobs. The quits rate is considered a measure of confidence in the job market, and has been steadily rising since hitting a low of 1.3% in late 2009. Rising job turnover should eventually lead to accelerated wage growth, which economists say will help push inflation towards the Fed's target of 2%. Hiring in December was little changed at 5.49 million. The JOLTS report is one of the Fed's preferred economic indicators.

More Rate Increases Forecast

More forecasters now expect the Fed to raise rates four times this year instead of the three times previously forecast because of the bipartisan spending bill that will increase federal government spending by $300 billion over the next two years. Many economists predict the bill could boost US economic growth by approximately 0.3% both this year and next year, which is roughly the same amount of increase expected from the $1.5 trillion tax cut that was signed into law in December. The Fed's rate-setting decisions are important to markets because of the likely impact of climbing rates on the values of bonds, stocks, currencies, real estate and other assets. Policies often influence borrowing costs for households and businesses. The Fed has raised rates five times since December 2015; at the end of 2017 rates were between 1.25% and 1.5%.

HOUSING & CONSTRUCTION

Housing Starts Rise 9.7%

Housing starts rose 9.7% in January to a seasonally adjusted annual rate of 1.33 million units after falling 8.2% in December. **Single-family starts rose 3.7%** to a seasonally adjusted annual rate of 877,000 units after falling to 836,000 units in December. In January, there were 499,000 single-family units under construction, a gain of almost 12% from January 2017. Multifamily starts rose 23.7% to a strong seasonally adjusted annual rate of 449,000 in January. Multifamily data tends to be particularly volatile on a month-to-month basis, but 55% of the homes under construction in December were multifamily. NAHB expects single-family starts to rise 5% this year; multifamily starts are expected to fall slightly. **Regional starts were mixed.** Starts rose 45.5% in the Northeast, 10.7% in the West, and 9.3% in the South. Starts fell 10.2% in the Midwest.

Building Permits Rise 7.4%

Overall building permit issuance rose 7.4% in January to a seasonally adjusted annual rate of 1.4 million units, which is a post-recession high. **Single-family permits dropped 1.7%** to 866,000 units. Multifamily permits jumped 26.5% to 530,000 units. **Regional permit issuance was mixed.** Permits rose 92.5% in the South and 17.1% in the West. Permits fell 2.6% in the Midwest and 21.7% in the Northeast.

New-Home Sales Fall 7.8%

Sales of newly built, single-family homes fell 7.8% in January to a seasonally adjusted annual rate of 593,000 units after December sales were revised up from 625,000 to 643,000 units. It was the second consecutive month new home sales have dropped. The inventory of new homes for sale rose 2.4% to 301,000, a 6.1-month supply at the current sales pace, the highest since 2014. The increase in supply coupled with strong consumer demand could make for a busy spring selling season. **Regional sales were mixed.** New home sales rose 15.4% in the Midwest and 1.0% in the West. Sales decreased 14.2% in the South and 33.3% in the Northeast. NAHB says that builders report confidence in the overall market and future sales conditions, but the interest rate environment could be causing some short-term volatility. With strong consumer demand for housing, the NAHB expects sales to move forward in the months ahead. 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 3.2%

Total existing home sales fell 3.2% in January to a seasonally adjusted annual rate of 5.38 million homes from a downwardly revised 5.56 million in December. It was the largest decline on an annual basis in more than three years and left sales down 4.8% from January 2017. **Single-family home sales dropped 3.8% to a seasonally adjusted annual rate of 4.76 million** in January from 4.95 million in December. Unsold inventory is at a 3.4-month supply at the current sales pace, down from 3.6 months in January 2017 and the lowest level since NAR began tracking in 1999. The inventory of homes available for sale has fallen for the past 32 months. **Sales fell in all regions**, dropping 1.4% in the Northeast, 6.0% in the Midwest, 1.3% in the South and 5.0% in the West.

Builder Confidence Holds Steady

Builder confidence held steady at 72 in February after dropping from 74 in January, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). The component scores were mixed, with the index gauging future sales expectations reaching a post-recession high of 80, the index measuring buyer traffic holding steady at 54 and the component measuring current sales conditions dropping one point to 78. Looking at the three-month moving averages for regional

HMI scores, the Midwest rose two points to 72, the South increased one point to 74, the West remained unchanged at 81 and the Northeast fell two points to 56. 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, although builders continue to face scarcities of labor and increases in building materials prices.

Mortgage Rates Rise to 4.4%

A 30-year fixed-rate mortgage (FRM) rose to 4.4% at the end of February after rising to 4.15% at the end of January. It was the third consecutive month rates have risen. At the end of February last year 30-year rates averaged 4.16%. The increases in rates have been due to climbing Treasury yields. Nevertheless, mortgage rates remain quite low and affordable.

POWER TOOL INDUSTRY

Robert Bosch Tool Corporation

Robert Bosch bought Detroit-based ride-sharing service SPLT. Bosch believes travel to and from work is a “growth market”, part of a far-reaching shift in personal transport powered by the mobile internet. Bosch is creating a Connected Mobility division with more than 600 employees and believes that connectivity offers tremendous business potential.

Stanley Black & Decker

From the Barclays Industrial Select Conference:

They have invested a lot of time and money over the past four years to improve their digital capabilities.

They have ten teams around the world working on breakthrough innovations and expect to commercialize some of the concepts being developed in the future.

They are also focused on commercial excellence, which is basically continuous improvement for all customer-facing processes, whether that involves sales force deployment, brand development or customer experience.

They believe Lenox, Irwin and Craftsman will be drivers of organic growth for many years to come. They have done more than 100 acquisitions since CEO James Loree has been with the company.

Last year FlexVolt added $300 million organically and they expect it to be a growth driver as time goes on. They expect that ultimately the FlexVolt battery system will be able to run all power tools, including many tools that have never before been cordless.

They talked about their 22/22 vision, which is $22 billion in revenue by 2022. In order to achieve that they have to do about $5 billion to $7 billion in acquisition revenue, which they think they can do, as the pipeline is very strong. Their Craftsman acquisition opens up another $30 billion or so of companies that they might be interested in. There are small bolt-ons, medium-sized acquisitions and occasionally there may be a larger acquisition.

Their connected job site actually brings WiFi and software to job sites that allows many different functionalities that help with safety and efficiency. It has amazing potential, but it needs a dedicated team to maximize it. They have some innovations that are so “out there” they actually have a small group of people in Silicon Valley that are using an exponential organizational technique designed to try to scale and commercialize products and processes ten times faster than a traditional organization can do.

Other News:

SB&D is expanding into new office space in Towson, Maryland now that more than $1 million in renovations have been completed at the landmark building that had been vacant for years. SB&D is leasing 6,600 square feet on the building’s top floor for a single division.

SB&D also plans to invest $8.5 million in a 92,000-square-foot building recently completed in White Marsh. The expansion will support 400 new jobs and bring the workforce in the state to 2,700. That includes 1,600 people at their 31-acre Global Tool and Storage Division headquarters in Towson, where they have more than 565,000 square feet of space. SB&D is getting a variety of incentives from the state.

DeWalt is providing lithium-ion batteries for Klein Tools' new line of battery-operated tools for professionals, including a variety of cable cutters, crimpers and an impact wrench.

TTI/Techtronic Industries

Milwaukee Electric Tool plans another expansion at their Brookfield, Wisconsin headquarters. The company would buy 3.5 acres adjacent to their Brookfield campus for a 114,500-square-foot office building that would create 350 jobs over five years. The new building would primarily house engineering and software development employees. There are currently 1,300 employees on the Brookfield campus, compared with 300 in 2011.

Trimble

Revenue rose 21% for the fourth quarter to $708.4 million with Buildings and Infrastructure revenue up 18% to $209.6 million. **For the full year, revenue was up 12%** to $2.7 billion and Buildings and Infrastructure revenue rose 12% to $834.9 million.

Trimble acquired privately-held e-Builder, a provider of integrated, cloud-based construction program management software, for $500 million in cash. E-Builder manages more than $300 billion of construction project value and some 200,000 projects in North America. Some of their most high profile customers include the New York Department of Transportation, the Port Authority of New York and New Jersey, Cumberland Farms and Northeastern University in Boston.

RETAIL

Retail Sales Fall 0.3%

Retail sales fell 0.3% in January and December's increase of 0.4% was revised to show no gain in sales. The biggest decline in almost a year was chiefly due to drops in sales at auto dealers and home centers. Both declines were from sales numbers that had been driven up by hurricane recovery sales. Sales were flat at internet retailers but were up 13.2% from January 2017. Building materials and garden supply stores saw sales fall 2.4% in January; sales were up 6% year-over-year. Sales rose at gas stations as prices at the pump climbed. Analysts also pointed out that much of the country experienced very bad weather in January. Retail sales account for about one-third of all consumer spending, with services accounting for the other two-thirds.

Retail Sales Forecast

Overall retail sales will rise between 3.8% and 4.4% in 2018, according to the latest forecast from the National Retail Federation (NRF). Retail sales grew 3.9% in 2017 over 2016 to $3.53 trillion, which was higher than NRF originally forecast. NRF says the robust holiday season was just one of the indicators that consumers are feeling more positive about their financial health. As the overall economy gains strength consumer confidence should continue to grow. NRF believes that the economy will grow by an average 163,000 jobs each month, down slightly from 2017. Unemployment is expected to drop to 3.9% by the end of the year and GDP should range between 2.5% and 3%.

The Home Depot

Q4 sales rose 7.5% to $23.88 billion and comp sales rose 7.5%. Both results beat analysts' expectations. Total sales growth was positively impacted by 0.5% by a weaker US dollar.

Comp transactions rose 1.9% and average check rose 5.5%. THD expects comp store sales growth of 5.0% this year, slightly below analysts' expectations of 5.4% growth.

Fiscal 2017 sales grew 6.7% to $100.9 billion, setting a new record for THD.

From their Conference Call with Analysts:

All three of their US divisions had positive comps for the quarter but there were significant variations in regional performance due to the weather.

Canada and Mexico posted another quarter of positive comps in local currency.

Transactions for tickets under $50 grew 0.8% in the quarter; those tickets now make up approximately 16% of US sales, with strong sales for both DIY and Pro customers. Pro sales grew in the double digits in the quarter, as did pro-heavy categories.

DIY customers responded well to events throughout the quarter and traffic was strong both in-store and online during their Black Friday gift center and holiday events. DIY customers drove strong comps in power tools, hand tools, rugs, appliances and decorative holiday.

Online sales grew 21% in the fourth quarter compared to the fourth quarter in 2016 and were up 21.5% for the fiscal year to 6.7% of total sales. Approximately 46% of online US orders are picked up in stores.

Lumber, electrical and tools had double-digit comps for the quarter and appliances, plumbing and building materials were above the average comp.

Sales benefited from hurricane recovery efforts but they also had hurricane-related expenses. They believe they had $652 million in hurricane-related sales in the second half of 2017 and expect that same amount of sales in 2018.

DIY customers were more likely to shop with them again than last year, with 86% intending to shop again.

They reaffirmed their investment strategy to grow sales to $120 billion by 2020 and grow operating margins to 15%.

For the second half of the year, 99% of stores qualified for success sharing. They also paid out incremental one-time bonuses of more than $240 million to hourly associates due to benefits realized by tax reform.

They are planning their annual spring Black Friday event and are excited about their new patio offerings.

During the fiscal year they opened six new stores, including three in the US and three in Mexico, and ended the year with 2,284 stores and 237 million square feet of selling space.

For the fiscal year, total sales per square foot increased 6.7% to $417, the highest level since fiscal 1999. At the end of the quarter merchandised inventories were up $199 million from last year to $12.7 billion and inventory turns were 5.1 times, up from 4.9 times last year.

For fiscal 2018 they expect sales to grow 6.5%. Fiscal 2018 will include a 53rd week, so fourth quarter 2018 will have 14 weeks.

Customers are continuing to take on bigger projects as they feel more confident in their home values and THD sees that continuing in 2018.

They have invested significantly to eliminate friction between different channels as they pursue their One Home Depot strategy.

They will be rolling out more end caps dedicated to connected home products and have some exciting new products coming out. They believe there will be more and more products enabled through technology over the next five years and manufacturers will find ways to enhance their products for customers.

Lowe’s

Q4 sales fell 1.9% to $15.5 billion, topping analysts’ estimates. **Comp stores sales rose a strong 4.1%,** better than analysts’ estimates.

Full year sales for 2017 rose 5.5% to $68.6 billion from $65 billion in fiscal 2016. It was Lowe’s highest annual sales ever.

Comp sales for the US home improvement business rose 3.7% in the fourth quarter and 3.9% for the full fiscal year.

Lowe’s expects total revenue to rise roughly 4% in 2018, with comp sales rising 3.5%. Lowe’s expects to open 10 new stores in 2018.

From their Conference Call with Analysts:

Comp sales on Lowes.com grew 28% for the quarter and 34% for the full year. They are enhancing their in-home selling program and centralizing the process for providing customers with installation quotes.

They’ve optimized functionality and display on mobile and touch screen devices, improved their product content recommendations, refined search algorithms, improved click-to-chat capabilities and used digital line reviews to optimize assortments.

Their never-out strategy drove above average comps in tools and hardware, as well as rough plumbing and electrical.

They have re-leveraged their MyLowes platform to drive loyalty and build deeper relationships. MyLowes members spend 35% more than non-members. In 2017 they added more than 4.5 million new MyLowes members.

Not everything they did during the year delivered on expectations. They are pleased with traffic growth but are actively working to improve conversions and gross margins while better managing inventory.

They improved sales floor coverage, but now realize they must accelerate associate readiness and knowledge through training programs as well as re-engineer some key processes.

They are investing in a new direct fulfillment center that they expect to be operational in the third quarter, which will allow them to expand their online product offering and offer faster parcel shipping.

They are also investing in delivery capacity to meet increased demand and advancing their pick-up-in-store experience to allow customers and installation service providers to pick up products within five minutes of their arrival. They have been pilot testing that program since last August.

Some of the investments they are making in their supply chain will start paying dividends this year, others will be further into the future. They realize that consumer expectations have changed and they have to competitively deliver what people are looking for.

As previously announced, they will be introducing Craftsman in stores and online in the second half of the year.

They expanded their partnership with Sherwin-Williams. They will now be Lowe's exclusive national supplier for interior and exterior paints, and Lowe's will also become the only US home center to offer Minwax, Cabot and Thompson's Water-Seal.

Their installation services teams complete about 60,000 in-home installations each week. They are testing the commercialization of Lowe's Vison Pro with in home project specialists, allowing customers to use augmented reality to visualize their completed projects.

Inventory turnover was 3.9 times, down 15 basis points from last year, 6 points of which was due to the extra week in 2016.

They are pleased with their double-digit comp growth in appliance sales, and they are now the category leader.

Promotions and pricing are driving increases in traffic, but conversions are down and they need to improve them by giving associates better tools to work with and figuring out how to get all the work done that needs to be done every day while still having enough associates in front of customers.

They are reevaluating their long-term targets and plan to present a full update on their business strategy and long-term outlook at their analyst and investor conference in December. They continue to expect an annual sales increase of at least 4% and expect operating margins to improve after this year; they are expecting flat margins this year. They plan to make incremental capital investments this year as a result of tax reform.

For this year Lowe's plans to leverage analytics in order to know their customers better and change how they engage with them. They also intend to expand fulfillment options, grow sales with the Pro customer and differentiate themselves with services.

Strategically they will focus on several areas, including investing in further strengthening competitiveness and enhancing their position as the omni-channel project authority.

It was a strong quarter internationally, with high single-digit comps in Mexico and mid-single-digit comps in Canada, both in local currency.

They've made significant progress integrating RONA in Canada, achieving double-digit online sales growth, rolling out appliances to 100 locations, completing five RONA big-box conversions, driving strong growth in their affiliated dealer business and optimizing shared supplier partnerships and procurement efforts. RONA posted their highest comps in 13 years, and Lowe's believes they are well positioned to continue to grow and are on track to double operating profitability in Canada by 2021.

Other News:

Lowe's will pay a one-time bonus of $1,000 to more than

260,000 hourly US employees as they take advantage of changes in the US tax code. Lowe's will also expand benefits.

Lowe's is rolling out a pilot program in Charlotte and three other cities that will pay employees $2,500 toward certification in a range of trades, from plumbing to HVAC jobs. It's called Track to the Trades. Lowe's says they know they are training their people to potentially leave them, but something needs to be done about the lack of potential workers in the skilled trades. Studies show that a full 25% of workers are approaching retirement and there is no labor pool of trained workers to take their place. Lowe's picked Charlotte for the pilot because Charlotte scored last in social mobility in a recent study. Of course, employees can choose to remain with Lowe's and provide expert advice to shoppers in their subject area.

Walmart

Walmart sales rose 4% to $136 billion in Q4, but net income dropped as Walmart sunk capital into competing with Amazon. Ecommerce sales rose 23% for the fourth quarter, a big drop from 50% growth in the third quarter. Walmart expects online sales to grow 40% this year. Some of the decline in online sales came from what Walmart says was an over-emphasis on holiday goods in warehouses at the expense of staples. Online sales are generally less profitable than sales made in stores. Ecommerce accounts for less than 4% of Walmart's annual sales.

Walmart has aggressively cut prices and plans to double the number of stores where groceries can be ordered online and picked up curbside to 2,000 locations this year.

Walmart will start sharing more data with suppliers in a move to faster replenish out-of-stock items as part of their strategies to compete more effectively with rivals such as Amazon. Their On Shelf Customer Availability (OSCA) data, which was formerly only accessible internally, was shared at their Supplier Growth Forum in early February. Walmart will also tighten deadlines for deliveries. Walmart will now require large suppliers to deliver full orders within a specified delivery window 85% of the time or face a fine of 3% of cost of goods; the previous threshold was 75%. Walmart hopes to add $1 billion in revenue by improving product availability in stores.

Sam's is rolling out free shipping for Sam's Club Plus members on most items sold online, with no minimum purchase requirement. Sam's is on track to open their first ecommerce fulfillment center in Memphis, Tennessee, with the first packages expected to ship in early spring. Sam's is planning to expand the ecommerce distribution network in the second half of the year based on learnings from the Memphis center. In addition to building new locations, Sam's will turn 12 of the Sam's Clubs closed in January into distribution centers.

Sam's Club is also simplifying their membership structure. Going forward, there will be two levels of membership, Club and Club Plus. Club will be $45 a year and Plus will have an annual fee of $100. Sam's is also lowering the fee for additional Club memberships to $40.

The Sam's Club changes are viewed by analysts as a way to help Sam's compete with Amazon as well as Costco and BJ's Wholesale Club. Sam's typical customer is a single or dual income, busy family living in the suburbs making between $75,000 and $125,000 per year. Many own small businesses. While Sam's is not promising two-day delivery, a spokesperson said they are optimizing their network to get items closer to members and speed up delivery, with the goal of getting customers items in one to two days. Sam's also has a pick up service where customers can order up to midnight and pick up as early as 7 a.m. Their goal is get the waiting time to pick up orders down to five minutes or less.

Sears

Sears Home Services division is considered one of Sear's most valuable and marketable holdings, according to a report from CNBC, so it could bring considerable cash as Sears looks to shed assets and increase liquidity.

Sears Holdings is closing 64 Kmart stores and 39 Sears locations between early March and early April 2018. Sears wants to better align their physical store footprint and their digital capability needs. Sears' comparable sales have been falling for several years and dropped 15.3% in Q3 2017.

ACE Hardware

Revenue rose 6.8% in the fourth quarter to $1.32 billion. **Consolidated revenues for fiscal 2017 rose 5.1%** to $5.4 billion. Increases were noted across all departments, with power tools, outdoor living and lawn and garden showing the largest gains. New store growth and a 3.1% increase in comp store retail sales along with revenue from their acquisition of The

Grommet at the end of the third quarter were the primary drivers behind the strong increase in sales and revenue in the fourth quarter. Revenue from Ace Retail Holdings, or Westlake Ace Hardware was up 5.3% in the fourth quarter to $67.8 million.

True Value

Announcements from True Value's annual Reunion in Washington, DC, included the fact that 1,200 warehouse items will be designated as available only in stores. The new website, TrueValue.com, will also show local in-store pricing, and has a reported goal of driving more traffic into stores. The website is expected to go live April 1. Both announcements were greeted with rousing applause.

W. W. Grainger

More than 12,000 people attended the annual Grainger Show in Orlando, Florida. In its 14th year, the 2018 Grainger Show featured approximately 700 suppliers on more than 450,000 square feet of trade show floor space. The show includes seminars and workshops on workplace safety, operational efficiency, healthcare facility management, food safety regulations, emergency preparedness, energy efficiency and digital technologies used in manufacturing. Grainger also offers attendees the opportunity to learn more about Grainger's offerings in safety, inventory management, ecommerce, facility services, metalworking and consulting services at solution centers throughout the show floor.

Amazon

Q4 net sales rose 38% to $60.5 billion. For the full year of 2017, Amazon's net sales rose 31% to $177.9 billion. Amazon expects net sales for the first quarter of 2018 to rise between 34% and 42% to $47.5 to $50.7 billion. Amazon's profits for the fourth quarter topped $1 billion for the first time as they sold more voice-activated technology, enlisted new Prime members and benefited from their recent purchase of Whole Foods. Analysts noted that Amazon got its start as an online bookstore in 1995.

Revenues from subscription fees, which include Prime membership fees, rose 49% from 2016. Amazon said they added more Prime members last year than any previous year, but did not provide hard numbers. Amazon also said that sales at Whole Foods were better than expected and sales of Alexa were also a big contributor to sales and profits.

Amazon Web Services' (AWS) fourth quarter sales rose 45%, intensifying Amazon's battle with Microsoft's Azure for public cloud market development. AWS accounted for 63% of Amazon's total operating income in the fourth quarter, providing $1.35 billion in operating income.

Amazon's ad revenues grew 58% in 2017 to $1.12 billion, and Amazon said that advertising was a key contributor to strong growth. Amazon's search marketing options have been growing rapidly as Amazon has invested in updating technology. Analysts estimate that Amazon's ad revenue will continue to grow and reach between $4.5 billion and $10.2 billion this year.

Amazon will reportedly cut hundreds of corporate employees in a move to reduce the number of management positions. Amazon says they are aggressively hiring in many locations and other areas of the company, especially distribution. Amazon created 130,000 jobs in 2017 and acquired 90,000 employees along with Whole Foods.

Amazon opened their long-awaited new headquarters in Seattle, which news sources described as a rainforest with alternatives to desks. Jeff Bezos opened the space by commanding "Alexa, open the spheres." The ceilings turned blue as he spoke. The futuristic Sphere's three glass domes house 40,000 plants of 400 species. Amazon invested $3.7 billion in buildings and infrastructure in Seattle between 2010 and the end of 2017.

Amazon's Jeff Bezos wants to change healthcare in America, and to that end has teamed up with veteran investors Warren Buffet and JP Morgan's Jamie Dimon to create a not-for-profit venture. Details are currently scarce, but reportedly the healthcare venture will focus on technology for "simplified, high-quality and transparent healthcare at a reasonable cost" for their combined 500,000 employees. Analysts say the complex US healthcare sector is ripe for disruption, with both employers and consumers very anxious to find more affordable options, better choices, better outcomes and higher price transparency.

CANADA SNAPSHOT

GDP Grows 1.7%

The Canadian economy grew at an annual pace of 1.7% in the final months of 2017, according to Statistics Canada. Results were below economists' expectations of 2.0% growth in the fourth quarter. The economy grew 3.0% for all of 2017, a much stronger pace than the 1.4% growth seen in 2016. Growth in the fourth quarter was driven by a 2.3% increase in business investment compared with the third quarter, and a 0.5% increase in household spending. Growth for the third quarter was revised down to an annualized rate of 1.5% from 1.7%. Economists say the rapid growth spurt seen from mid-2016 through the middle of 2017 is over, and the economy is back to chugging along at about a 2.0% annual pace of growth. For 2017 as a whole, household spending made the biggest contribution to growth, followed by inventory and business investment. The federal budget for 2018 projects 2.2% growth this year and 1.6% growth in 2019. Economists say there are a host of downside risks to the Canadian economy from abroad, particularly US trade and tax policy.

Canadians Worried About Money

Half of Canadians are more concerned about their ability to repay debts than they were back in September, and one in three Canadians say they are unable to cover their monthly bills, according to the latest MNP Consumer Debt Index. The quarterly survey, conducted by Ipsos, shows that even people who are making ends meet have fewer dollars left to spend at the end of the month. Four in ten Canadians said that if interest rates go up much more they are concerned they will be in financial trouble. And more than 70% said that as interest rates rise they'll be more careful about how they spend their money. Millennials and Gen Xers are the demographic groups most likely to be worried about the effects of higher interest rates. Analysts say some of that may be due to the fact that an entire generation of Canadian consumers has never experienced anything except rock-bottom rates.

Unemployment Drops to 5.8%

Canada's unemployment rate inched down to 5.8% in February, and the Canadian economy added about 15,000 new jobs after losing 88,000 jobs in January. Health-care and social assistance sectors added jobs, while wholesale and retail trade as well as manufacturing all shrank. By province, New Brunswick and Nova Scotia added jobs, while Saskatchewan lost some. There was little change everywhere else. Economists said that despite the decline in the unemployment rate, the overall report was neutral, as part-time jobs accounted for all of the gains, and full-time jobs declined by 40,000, the first decline in six months. Most of the gains were driven by public-sector employment, which increased by 50,000 jobs. Most economists agree that public-sector job growth is not sustainable, and private-sector job gains are needed to maintain growth. But the economy only added 8,000 private-sector jobs in February, while losing 43,000 self-employed positions.

Consumer Confidence Rises to 55.72

Consumer Confidence in Canada increased to 55.72 in February from 55.12 in January, according to The Conference Board of Canada's Index of Consumer Confidence. Consumer confidence in Canada averaged 53.27 from 2010 until 2018, reaching an all-time high of 56.40 in August of 2014 and a record low of 46.80 in February of 2016. 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 1.7%

The consumer price index (CPI) rose 1.7% in January on a year-over-year basis after rising 1.9% in December, according to Statistics Canada. Underlying or core inflation rose 1.83%, based on an average of the three preferred gauges used by the Bank of Canada, which was the highest level since the summer of 2016, and up from 1.76% in December. Economists said that the firming in core prices suggests that the strong economic growth that Canada has experienced over the past year is doing its job in pushing inflation toward the central bank's target of 2%, which is the same as the Fed's target in the US. On a seasonally adjusted basis, inflation rose 0.5% in January compared to December 2017.

Canada U.S. Trade Updates

Members of the Trump administration have recently hinted that withdrawing from NAFTA is not in their current plans. A congressional gathering heard Treasury Secretary Steven

Mnuchin express some optimism about getting a deal based on ongoing meetings. Mnuchin said "It is a major priority of ours to renegotiate the deal." Canadian minister Justin Trudeau also struck a cooperative tone during an address he made in mid-February in California, saying that both the US and Canada benefit greatly from NAFTA.

Housing and Construction News

Canadian housing starts dropped slightly in January to a still-strong 216,210 seasonally adjusted annual units, according to Canada Mortgage and Housing Corp (CMHC). Economists had expected starts to drop to 210,000 units. Last year was a strong year for housing, but the pace of growth is expected to slow this year. Nevertheless, the six-month trend in starts in January remained near the 10-year high set in December. BMO Capital Markets is still expecting a solid 200,000-plus level of starts this year. Economists are also unsure of how tighter mortgages rules that took effect this year and the three interest rate increases that have been enacted since last July are going to affect consumers. Multiple urban starts, which are generally apartment buildings, townhouses and condominiums, essentially held steady at 134,685 units in January while single-detached urban starts increased by 0.6% to 63,715 units. Rural starts were estimated at a seasonally adjusted annual rate of 17,810 units. There were some significant movements on a regional basis, with the largest gains concentrated in Ontario, where multifamily starts are soaring. Saskatchewan and Alberta also experienced good gains, due to high levels of building activity in Regina and recoveries in Edmonton and Calgary. Separate data from Statistics Canada showed new home prices were unchanged in December.

Home sales fell 14.5% in January from December. Analysts say a flood of buyers and sellers trying to close deals last year ahead of tighter mortgage rules were behind the expected decline, which was the lowest level of sales in three years. They expect the market to be dampened in the near future as Canadians adjust to the new rules and an interest rate hike, the third in the past year. January sales were down in three-quarters of all local markets and virtually all major urban areas. On an annual basis sales were down 2.4%.

Retail Sales Fall 0.8%

Retail sales fell 0.8% in December 2017 after three consecutive monthly increases, with sales at general merchandise stores, health and personal care and electronics and appliance stores dropping. Total retail trade in current dollars dropped to $49.65 billion from $50.04 billion in November, but was up 5.8% from December 2016, according to Statistics Canada. For the full year of 2017 retail sales grew at the fastest rate in more than 20 years, climbing 6.7% to $588 billion. The increase was led by motor vehicle and parts dealers and gasoline stations and was partly attributable to higher prices. Excluding those categories, sales for 2017 rose 4.7%. In Canada, retail sales account for about half of all consumer spending, and are considered a proxy for overall consumer spending.

Canada Retail Notes

Canadian Prime Minister Justin Trudeau met with Amazon CEO Jeff Bezos during his tour of America. He also met with California's governor, Jerry Brown.

Lowe's Canada will hire more than 7,000 employees this spring for their Lowe's, RONA and Reno-Depot stores. They held their first ever National Hiring Day event in all stores throughout Canada on February 24. The largest number of jobs were available in Ontario and Quebec. Management teams were onsite to accept applications and conduct interviews; candidates could also apply online.

Canadian Tire beat expectations as Q4 revenue rose to $3.96 billion from $3.64 billion in Q4 2016. Comp sales were up 3.5% at Canadian Tire, considerably above expectations. CEO Stephan Wetmore says they remain committed to investing in innovative initiatives that will help them grow as well as exceed customer expectations. Over the past few years Canadian Tire has invested hundreds of millions of dollars in innovation, including everything from renovating existing stores to creating more interaction with customers and incorporating visual reality so customers can test out how tires feel in different driving conditions.

Canadian Tire acquired Sher-Wood Athletics Group's global hockey trademarks. Sher-Wood manufactures and distributes hockey gear and hockey licensed products. Terms were not disclosed.

MARKET TRENDS

Ecommerce Should Set Records

US ecommerce sales will represent 10% of total retail sales this year, growing 16% to $526.09 billion, according to a report by eMarketer. Total retail sales will grow 3.7% to reach nearly $5.3 trillion. Mobile commerce (mcommerce) will continue to surge, rising more than 32% this year to $208.29 billion. Mcommerce will make up 39.6% of ecommerce sales as well as 4.0% of total retail sales this year, and is expected to account for nearly half (49.2%) of total ecommerce sales by 2020. The bulk (71.5%) of mcommerce this year will come from smartphones, which will continue to capture a growing share in the US, while tablets' portion will continue to decline, according to the report. The report also predicts that ecommerce will grow to 12.4% of US retail sales in 2020. This year, there will be 190.3 million digital buyers in the US, nearly 70% of the population, up 3.2% over last year. The largest share of digital buyers (20.5%) are between 25 and 34, followed by 35-44-year olds and 45-54-year olds. In 2018 there will be 155.5 million mobile buyers, up 5.6% over last year. About 64.7% of those mobile buyers will use a smartphone to make the purchase.

Shipping Wars

Amazon is preparing to launch a business delivery service that will directly compete with FedEx and UPS, according to the *Wall Street Journal.* The service, Shipping with Amazon (SWA), will entail Amazon picking up packages from businesses and shipping them to consumers, according to sources who talked with WSJ. It's the latest move by Amazon to create their own parcel and freight delivery network. They've already expanded into ocean freight, built a network of drivers who can deliver inside homes, leased up to 40 aircraft and established an air cargo hub. Amazon already delivers some of their own orders in at least 37 US cities, and is rolling out free two-hour delivery from Whole Foods for Amazon Prime members in some markets, with plans to expand nationwide this year.

Millennials Impact Warehouse Clubs

Millennials are relying on online sites and Amazon when they want to order items in bulk, or make other purchases their parents went to warehouse stores to make. Analysts say core club members are older and are generally people with a home and a family. Analysts say warehouse retailers have been very slow to shift business online, offer home delivery or make other big changes to better compete with Amazon and online shopping. Warehouse clubs and supercenters cut an average of 2,500 jobs each month in 2017, reversing a longtime trend of steady growth. Between 2009 and 2016, warehouse stores had added an average of 3,000 workers each month. Many millennials are turning to online retailer Boxed, which offers free delivery, usually within two days, and no membership fee. More than 60% of Boxed shoppers are between 25 and 44.

Amazon Go Store: Cool or Creepy?

Now that Amazon has opened their Amazon Go store in Seattle to the public, journalists and analysts are speculating how people feel about the high-tech store where customers scan an app on their smartphone, shop and just leave without going through a checkout. Hundreds of cameras in the ceiling look down on shoppers as they roam the aisles. Amazon wants shopping there to be "effortless and magical." Customers on the first day reported grabbing items for lunch and leaving in less than two minutes. Write-ups about the store range from "it's supremely techy-cool" to "it's creepy, as if you stepped into Big Brother."

Technology Monitors Workers

Amazon has patented a bracelet that can track the position of warehouse workers' hands and monitor their actions. If an employee starts to place products in the wrong container, the device will indicate an error. In theory, this method is supposed to improve the efficiency of the personnel. The bracelet is composed of three components and emits ultrasonic and radio signals. There are special receivers placed around the perimeter of the work area. The computer module processes the data and determines the position of the employee's hands in relation to the storage basket. The patent application was submitted in 2016 but not approved until January of this year.

Artificial Intelligence with a Personality

Amazon's unique commercial for AI voice Alexa was the top rated ad in the Super Bowl, according to *USA Today's* 30th Ad Meter. The commercial claims that Alexa is losing her voice and uses celebrities who appeal to different age groups who try to replace her. Alexa already seemed "real" to many devoted users; by the close of the Super Bowl, she had achieved celebrity status. Just the mere fact that everyone refers to Alexa as "she" instead of "it" is a good indication of how real she seems. The commercial did not say how Alexa lost her voice, but if you ask Alexa if she's sick, she answers "I came down with a case of the acting bug, but I've got it out of my system...for now."

Interacting with Customers is Key

The value of a brand in today's world is precarious at best, if the brand is not able to interact with customers directly and constantly across multiple devices. It's important to bond with customers, know who they are and talk to them in their own language, according to a recent report in eMarketer. If customers bond with brands they will be more loyal, according to a study by Media Post. Until now, brands have used digital as a means to reach a broad audience. Now the goal is becoming finding ways to interact with individual consumers in ways that resonate with them. Building this sort of direct relationship builds business, cements relationships and provides a wealth of valuable data that can be used to fine-tune marketing efforts.

Nest Moving Back into Google

Alphabet is moving their smart home appliances subsidiary, Nest, back into Google as part of their efforts to ward off growing competition from Amazon. Nest has been operating as a standalone business for the past two years. Nest was the largest generator of revenue within Alphabet's "Other Bets" businesses, part of their strategy to find the next big thing outside of advertising. Other companies within the "Other Bets" category include driverless firm Waymo and healthcare group Verify.

Consumers on Hi-Tech Shopping

Many consumers already know which technologies they'd like their favorite retail brands to offer in the near future. According to a global survey of 2,250 internet users conducted by retail management platform provider iVend Retail, in partnership with AYTM Market Research. Roughly a third of respondents said they would like to make automatic payments using digital shopping carts, but only one in five wanted biometric ID and payment. Consumers also see hi tech as an opportunity to liven up the overall shopping experience, with 24.9% of those polled saying they'd like their favorite retailers to offer interactive fitting rooms, and another 16.7% of consumers liking the idea of voice-activated shopping. Virtual/augmented reality and interactive signage (19.7%) were also popular, as well as in-store robots to assist with customer service. However, not everyone embraces shopping technology; 36% of respondents did not want to use new technologies when they shop.