Market Briefing

Content

US ECONOMY

Consumer Confidence Rises to 128.0

Consumer Spending Rises 0.6%

Consumer Prices Rise 0.2%

Unemployment Falls to 3.8%

Durable Goods Orders Fall 1.7%

Chicago PMI Rises to 62.7

Wholesale Prices Rise 0.1%

Q1 GDP Revised Down to 2.2%

HOUSING & CONSTRUCTION

Housing Starts Drop 3.7%

- Single-family starts flat

Building Permits Fall 1.8%

- Single-family permits rise 0.9%

New-Home Sales Drop 1.5%

Existing Home Sales Drop 2.5%

Builder Confidence Rises to 70

Mortgage Rates Fall to 4.56%

POWER TOOL INDUSTRY

Robert Bosch Tool Corporation

- Partners with Triax Technologies

Stanley Black & Decker

- From the Wells Fargo conference
- Testing smart factories

Trimble

- Q1 revenue rises 21.6%
- Testing facility near completion

TTI/Techtronic Industries

- Testing facility near completion

W.W. Grainger

- Laura Graham to retire

Amazon

- Pilots delivery to cars program
- Expands Amazon Go
-

RETAIL

Retail Sales Rise 0.3%

The Home Depot

- Q1 sales up 4.4%; comp sales up 4.2%
- From their Q1 conference call

Lowe's

- Q1 sales up 3%; comp sales up 0.6%
- From their Q1 conference call
- Marvin Ellison named new CEO

Walmart

- Q1 revenue up 4.4%; comp sales at US stores up 2.1%
- Updates website
- Tests personal shopping service
- Tests new store format

Sears

- Q1 revenue falls 31%; comp sales at Sears fall 13.4%
- Crafts innovative Amazon deal

Ace Hardware

- Q1 revenue up 6.0%; comp sales up 2.2%

CANADA SNAPSHOT

Economy

Housing & Construction

Retail

MARKET TRENDS

Millennials Hurt by Housing Crunch

Residential Construction Changing

Skills Shortage Hurting Construction

Amazon Smart Home Partnership

Robots for the Home

Job Tasks to Change

Website Personalization Increases

New Distribution Strategies

AI in the Sky

Target Uses Augmented Reality

Not So Many Happy Returns

Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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US ECONOMY

Exchange Rates May 31, 2018

Euro	1 Euro = $1.167	$1.00 = 0.856 Euros
Canadian Dollar	1 CAD = $0.771	$1.00 = 1.297 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 108.743 Yen
Chinese Yuan	1 Yuan = $0.156	$1.00 = 6.411 Yuan
Mexican Peso	1 Peso = $0.050	$1.00 = 19.996 Pesos

Market Watch May 31, 2018

DOW	24,416	1.0%
NASDAQ	7,442	5.3%
S&P 500	2,705	2.2%

All three indexes finished the month of May with their best gains since January, and would have fared better if it had not been for international unrest and growing fears about trade wars. For the month of May, the DOW gained 1.0% to close at 24,416, the NASDAQ gained 5.3% to close at 7,442 and the S&P, the index most closely followed by economists, gained 2.2% to close at 2,705.

Consumer Confidence Rises to 128.0

The New York-based Conference Board's Consumer Confidence Index rose to 128.0 in May after April's reading was downwardly revised to 125.6. The Present Situation Index rose to a 17-year high of 161.7 after rising to 159.6 in April. The Expectations Index rose to 105.6 in May from April's downwardly revised 104.3. Consumers continue to perceive that labor markets are tight, with the percentage of respondents stating that jobs are "plentiful" increasing from 38.2% to 42.4%. Expectations for the future remain very positive. 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 0.6%

Consumer spending grew 0.6% in April after rising an upwardly revised 0.5% in March and was up 1.8% year over year. Core consumer spending rose 0.4% in April after increasing 0.5% in March. Personal incomes rose 0.3% in April after rising a downwardly revised 0.2% in March. The savings rate slipped to 2.8% in April after falling to 3.1% in March. A key inflation gauge rose 0.2% for the third consecutive month, leaving the PCE index, the Fed's preferred inflation measure, up 1.8% year over year. Core PCE inflation rose at more than 2.3% over the past three months, supporting the Fed's plans for gradual increases in interest rates.

Consumer Prices Rise 0.2%

The Consumer Price Index (CPI) rose 0.2% in April after falling 0.1% in March. The CPI was up 2.5% over the past twelve months. Core inflation, which excludes food and energy, rose 0.1% in April after rising 0.2% in March and was up 2.1% from April 2017. Gasoline prices rebounded 3.0% in April after tumbling 4.9% in March, and further increases are likely after crude oil prices jumped in response to the US pulling out of an international nuclear deal with Iran.

Unemployment Falls to 3.8%

The unemployment rate fell to 3.8% in May from 3.9% in April and the economy added a robust 223,000 new jobs after adding 164,000 new jobs in April. The unemployment rate was the lowest recorded since 2000. The number of jobs created was well above expectations. Job gains were broad based, with manufacturing adding 18,000 jobs and construction adding 25,000. The late 1960s was the last period during which the unemployment rate consistently remained below 4%. Wages rose by 2.7% after having risen by 2.6% in April. Economists said that the solid jobs report along with other economic news is evidence that the 9-year economic expansion is still moving forward and the economy is on solid footing.

Durable Goods Orders Fall 1.7%

Durable goods orders fell 1.7% in April after rising 2.6% in March. Economists had expected orders to fall 1.0%. Excluding the volatile transportation category, orders were up 0.9% after being flat in March. Nondefense capital goods orders excluding aircraft, widely regarded as a proxy for business spending plans, rose 1.0% in April after being downwardly revised for March. These core orders have improved to a 6.3% annual pace over the past three months, which suggests that equipment spending should continue to rise in the second quarter despite nondefense capital goods shipments, which factor into GDP, dropping 4.6% in April after falling 0.7% in March. The durable goods report is volatile and often subject to sharp revisions.

Chicago PMI Rises to 62.7

The Chicago Purchasing Managers' Index (PMI) jumped 5.1 points to 62.7 in May, the highest level for the index since January. All five components rose for the month, but the big jump was largely driven by increases in Production and New Orders, which account for 60% of the index and were 3.7% and 2.1% above their respective levels a year ago. Prices Paid remained above the 70-mark, and is up more than 20% year over year. Supply constraints were negatively impacting the business of 63% of respondents, and longer delivery times and rising materials costs are eating into margins.

Wholesale Prices Rise 0.1%

The Producer Price Index (PPI) inched up 0.1% in April after rising 0.3% in March, continuing the upward climb in producer prices that has been going on since August 2016. The PPI was up 2.6% from April 2017. Core producer prices, which exclude food, energy and trade services, rose 0.2% in April after rising 0.3% in March and were up 2.3% compared to April 2017. The PPI for inputs to construction jumped 6.1% after rising 4.3% in March, continuing to squeeze margins for contractors. While inflation has definitely picked up, analysts say it is doing so at a manageable pace.

Q1 GDP Revised Down to 2.2%

GDP grew a downwardly revised 2.2% in the first quarter from the 2.3% growth first reported, according to the second reading. The slight downward revision was due to lower inventory investment and consumer spending than originally estimated. Economists had not expected any revisions. Growth in consumer spending was revised to 1.0% from the previously reported 1.1%. It was the slowest pace since the second quarter of 2013. Fourth quarter growth was robust at 4.0%. First quarter inventories increased at a $20.2 billion rate instead of the $33.1 billion first estimated, so inventory investment contributed 0.13% to GDP growth instead of 0.43%. The smaller inventory accumulation is good news for second quarter GDP growth. Business spending on equipment was revised up to 5.5% growth from the first estimate of 4.7%. Investment in homebuilding, or residential fixed investment, fell at a 2.0% pace rather than being unchanged as first reported.

Job Openings Climb to Record High

The number of job openings climbed to a record high of 4.2%, or 6.3 million jobs, in March, according to the Job Openings and Labor Turnover Survey, or JOLTS. Most industries saw job openings rise, with notable increases in openings in construction, which saw open jobs rise by 101,000, as well as transportation/warehousing and professional services. Over the month, hires and separations were little changed at 5.4 million and 5.3 million, respectively. Within separations, the quits rate was little changed at 2.3% and the layoffs and discharges rate was unchanged at 1.1%. The labor market is growing tighter, with just 1.0 unemployed workers per job opening. The job openings rate was 3.9%. 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. The JOLTS report is one of the Fed's preferred economic indicators.

HOUSING & CONSTRUCTION

Housing Starts Fall 3.7%

Housing starts fell 3.7% in April to a seasonally adjusted annual rate of 1.29 million units after an upwardly revised reading of 1.34 million units in March, which was an 11-year high for housing production. **Single-family starts were essentially flat,** inching up 0.1% to 894,000 units after an upwardly revised March reading. Single-family starts are up 8.3% over the first four months of the year compared to the same period in 2017. Multifamily starts fell 11.4% in April to a seasonally adjusted annual rate of 393,000 units after rising to 452,000 units in March. Multifamily data tends to be particularly volatile on a month-to-month basis. NAHB expects single-family starts to rise 5% this year; multifamily starts are expected to fall slightly. **Regional starts were mixed.** Starts rose 6.4% in the South. Starts fell 8.1% in the Northeast, 12% in the West and 16.3% in the Midwest. Single family construction year-to-date is up 21% in the West, 7% in the South and 4% in the Northeast. Construction is almost 7% lower in the Midwest.

Building Permits Fall 1.8%

Overall building permit issuance fell 1.8% in April to a seasonally adjusted annual rate of 1.35 million units after hitting a post-recession high in March. Single-family permits rose 0.9% to 859,000 units while multifamily permits fell 6.3% to 493,000 units after jumping 20.4% in March. **Regional permit issuance was mixed.** Permits rose 12% in the South. Permits fell 4.4% in the Midwest, 13.2% in the West and 31.9% in the Northeast.

New-Home Sales Drop 1.5%

Sales of newly built, single-family homes fell 1.5% in April to a seasonally adjusted annual rate of 662,000 units and numbers for March were revised down. Sales are up 8.4% year to date. The inventory of homes for sale at the end of March slipped slightly to 300,000 in April after falling to 301,000 in March. It was a 5.4-month supply at the current sales pace. Inventories of completed homes remain exceptionally lean. **Regional sales were mixed.** Sales rose 11.1% in the Northeast and 0.3% in the South. Sales were unchanged in the Midwest and fell 7.9% in the West. 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 Drop 2.5%

Total existing home sales dropped 2.5% in April to a seasonally adjusted annual rate of 5.46 million after rising to 5.60 million in March. The second consecutive monthly decline in sales left existing home sales 1.4% below a year ago. **Single-family home sales dropped 3.0%** to a seasonally adjusted annual rate of 4.84 million in April from 4.99 million in March and were 1.6% below the pace of a year ago. The NAR says the culprit is the extremely low level of inventory available; there are nowhere near enough listings to meet demand, which also means prices keep climbing, putting the home they want out of reach for many people. Total housing inventory at the end of April increased 9.8% to 1.80 million existing homes available for sale but is still 6.3% lower than a year ago and has fallen year-over-year for 35 consecutive months. Unsold inventory is at a 4.0-month supply at the current sales pace compared to a 4.2-month supply a year ago. **Regional sales were mixed.** Sales were virtually unchanged in the Midwest. Sales fell 4.4% in the Northeast, 2.9% in the South and 3.3% in the West.

Builder Confidence Rises to 70

Builder confidence rose to 70 in May after slipping in March and April, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). The component scores were mixed, with the present sales index accounting for all of the increase, climbing two points to 76. Future sales and buyer traffic were unchanged but remained solid at 77 and 51 respectively. Confidence is highest in the West and South, where job growth has been the strongest and population gains are greater than new construction. Spring finally arrived in the Midwest, where demand picked up. The Northeast was unchanged at 55.

Mortgage Rates Fall to 4.56%

A 30-year fixed-rate mortgage (FRM) fell to 4.56% at the end of May after rising to 4.58% at the end of April. The decline was driven by a sudden decrease in Treasury yields due to recent trade and geopolitical issues. Last year at the end of May rates averaged 3.94%.

POWER TOOL INDUSTRY

Robert Bosch Tool Corporation

Bosch Power Tools is partnering with Triax Technologies' Spot-r system to allow construction firms to collect and monitor real-time worker, equipment and tool locations, asset utilization and safety data. The integration of Bosch's Bluehound asset tracking solution with Spot-r will collect and transmit floor-and zone-based location information from tools and assets tagged with the Bluehound system. Triax says there is a lot of production time at the jobsite that is wasted tracking down tools and other equipment, people and information. Both Bosch and Triax are committed to growing the construction technology ecosystem. Spot-r delivers the information through a scalable mesh network, wearable devices, equipment sensors and a cloud-based dashboard.

Stanley Black & Decker

From the Wells Fargo Industrials Conference:

About three years ago they decided they needed to refocus the Stanley Fulfillment System, SFS 2.0, and reorient it to the digital transformation going on in the world, as well as make it more growth-oriented. Digital excellence is now at the center of the entire company.

They are now pursuing Industry 4.0, which is taking the digital technology of today and applying it to manufacturing as well as to the operational elements of the supply chain.

The first quarter was the 18th consecutive quarter where they met or beat their guidance.

They have done more than 100 acquisitions during the 19 years that CEO James Loree has been with the company.

About 200 Lowe's stores will introduce the full line of Craftsman this year; the rest will convert as they go into 2019. They have worked diligently with Lowe's to figure out how to merchandise and roll out in a way that is truly eye catching for the customer. They have been working with the planogram for the 1,000 products in the line and are very impressed. It should be clear to the customer that this Craftsman is different from legacy Craftsman.

FlexVolt continues to be a major driver of growth. Over time product introductions and innovations will enable job sites to be completely cordless. They are now exploring relationships with some of the Lawn & Garden OEMs to potentially work together to bring FlexVolt into Lawn & Garden. They have not yet mastered the challenge of matching or beating the price performance of gas-powered lawn and garden equipment.

The M&A market is quite pricey, so they are being careful. They expect to have some strategic options this year, and will decide whether they want to do something in M&A or take that excess capital and buy back stock.

They see the home centers striving to have exclusive brands; Craftsman will be exclusive to Lowe's in that channel, and Kobalt will be downsized.

Craftsman is the only brand in tools that cuts across all four markets: construction, DIY, industrial and automotive repair. Craftsman stands for value at a good price. They will not lose the identity of DeWalt for their high end professional brand, Mac Tools or Stanley, which will also have its place in DIY construction.

Other News:

SB&D has three pilot facilities where they are testing smart factory initiatives, according to an interview CEO James Loree did with *CEO* magazine. They have reportedly been working on the smart factory concept for two years. An example would be putting sensors on equipment that tell you what is happening to the equipment in real time. For example, sensors can tell how many pieces or parts per hour it is producing, whether anything has changed about the state of the equipment, whether it is creating excess vibration, when it will need maintenance and even when it will fail and need to be replaced. Smart plants will change the skillsets needed in plants. They don't expect to dramatically reduce head count, but hope headcount needs will not grow at the same accelerated pace at which they have been growing. They are also going to need people with different skills, which are hard to find these days. They have hired experts with these skills to train workers.

SB&D's long-term environmental sustainability goals have been approved by the Science Based Targets initiative, which is a collaboration between CDP, the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature. The group consists of more than 100 of the world's biggest companies that have now set targets through the Science Based Targets initiative. SB&D has committed to reducing Absolute Scope 1 and 2 Greenhouse Gas emissions 100% by 2030, using 2015 as the base year. They have also made other commitments. Across all sectors, more than 390 companies have committed to setting science-based targets; more than 100 now have approved targets.

Connecticut Public Television premiered an original documentary on the rise of Stanley Black & Decker, and its impact on the city of New Britain over the past 175 years. The show, called "The Toolbox of America," also focuses on the Stanley family, and includes interviews with experts and industry insiders.

Trimble

Q1 revenue rose 21.6% to $742.2 million and earnings per share beat analysts' expectations. Buildings and Infrastructure revenue rose 20% to $224.7 million. Trimble expects second quarter revenue between $755 and $785 million.

Trimble is nearly done with their $4.5 million expansion of

their dome in Dayton, Ohio that will allow for year-round research and product testing and demonstrations that previously had to be done in good weather. Trimble has also built a 130,000-square-foot distribution center and a 3,000-square-foot corporate data center in the area.

TTI/Techtronic Industries

Milwaukee Tool plans to begin construction soon on another large expansion of their Brookfield corporate campus, now that the project has received final city approvals. They expect the three-story, 114,500-square-foot global new product development center to be completed by May 2019. The center is across the road from the company's newly expanded headquarters. The Brookfield Council approved providing $3.5 million to help finance the new center. The council also approved a $6 million grant to help finance the $33 million headquarters expansion that was completed last fall. Milwaukee also stands to gain up to $18 million in state income tax credits depending on the number of jobs it retains and creates at both facilities.

RETAIL

Retail Sales Rise 0.3%

Retail sales rose 0.3% in April after jumping 0.6% in March. Sales were up 4.7% from April 2017. Growth was broad-based despite rising gasoline prices. Core retail sales, which exclude autos, gasoline, building materials and food sales, rose 0.3% in April after rising 0.4% in March. Sales at building material stores rose 0.4% after dropping a downwardly revised 1.0% in March. Many economists continue to expect that the higher take-home pay that resulted from President Trump's tax cuts will cause consumer spending to rise in the coming months.

The Home Depot

Q1 sales rose 4.4% to $24.9 billion and comp sales rose 4.2% overall and 3.9% in the US. Results were below analysts' expectations. The weaker US dollar compared to last year impacted sales growth by 0.4%.

From their Q1 conference call with analysts:

Weather impacted their performance, causing outdoor categories to fall short of expectations. The Southern and Western divisions saw better weather trends and comped above the company average. Canada posted slightly negative trends in local currency.

They described "the bathtub effect," which is based on when spring arrives. Relatively weak seasonal sales in the first quarter are typically balanced by strength in the second quarter. They expect that to occur this year, and in mid-May at the time of the conference call they were seeing strong customer demand in the US and Canada.

Pro sales once again outpaced DIY sales, as their investments aimed at deepening their relationship with their Pros are creating incremental spend.

They continue to invest in the interconnected shopping experience and see a positive response from customers, with better customer satisfaction scores and increased sales. Conversion rates are up more than 10% year-over-year across all devices. Online sales were up 20% for the quarter.

Sales exceeded expectations except for seasonal sales, which were impacted by extreme weather during the quarter, with April being one of the coldest and snowiest months in more than 20 years. Garden typically represents 15% to 20% of first quarter sales, but garden departments had negative comps for the first quarter.

Comp average ticket rose 5.8% and comp transactions decreased 1.5%. Excluding garden, comp transactions saw positive growth. **Transactions for tickets below $50 were down for the quarter** due to the decline in the garden business.

Pro-heavy categories all had above average comps. Big ticket sales in the first quarter, which are transactions over $900, were up 10%.

Merchandise inventories were up 6% to $14.4 billion at the end of the quarter and inventory turns were up slightly to 4.9.

They do not expect rising interest rates to lead to a slowdown in customer demand because home prices are appreciating and the economy is strong.

They will be rolling out to all stores the refresh and new signage packages they have already implemented in 250 stores over the past couple of years.

Lumber and panel prices are at historic highs, but because these commodity prices are posted weekly they have no problem passing those price increases along.

They will be piloting their first new supply chain facility this summer. The first ones they are doing are market delivery operations, which are stockless locations that will be delivery hubs for big and bulky products. Later this year they will be testing their flatbed distribution capability and opening their first local direct fulfillment center. They expect it will take about five years to completely transform their supply chain.

Their services business represents about 4% of total sales.

The online business is largely incremental sales; they are growing the categories in store at the same time they are growing online. Online comps grew 20%, and they continue to invest in enhancing their online shopping experience. The online business is now approximately 5% of sales.

They had eight basis points of gross margin contraction in transportation, of which three basis points were due to fuel costs and five basis points were due to the pressure on transportation. All companies are facing higher transportation costs.

They have a new labor model that kicks in during June; it should drive more labor productivity than they saw during the first quarter. They invested $144 million in increased advertising and increases in display costs during the quarter, as well as increased wages and headcount. They hired 350 people in the IT department alone. They need to make these investments in order to reach the goals for sales and margins they've laid out for 2020.

Other News:

THD has reached their goal of investing $250 million in veteran-related causes two years earlier than their target date of 2020. The foundation has partnered with a variety of organizations, including Habitat for Humanity and Volunteers of America. The Foundation has enhanced nearly 40,000 veteran homes and facilities in more than 2,500 cities.

Lowe's

Q1 sales rose 3% to **$17.4 billion and comp store sales rose 0.6%.** Both results were below analysts' expectations. Lowe's expects FY 2018 sales to rise 5%, with comp store sales rising 3.5%.

From their Q1 conference call with analysts:

Unfavorable weather across geographies impacted the important outdoor categories, although spring arrived in May, and May comps are in the double-digits. Comp average ticket for the first quarter rose 4.3%.

In the US, comps rose 0.5% in the first quarter with positive comps in six of 14 regions, with two regions being flat. There were positive comps in five of eleven product categories; one category was flat.

Performance was above average with Pros in lumber and building materials, tools and hardware and millwork.

Comps in Canada were positive in local currency. They continue to make progress integrating RONA and believe the business is poised for continued growth. However, comps in Canada were also pressured by challenging weather conditions.

They are investing to improve the Pro experience in order to continue to grow Pro sales. They are building on their strength in the MRO space and launched a streamlined product catalog in May.

They are focused on strengthening day to day execution and improving traffic conversion. They are also reengineering key processes and testing ways to improve the flow of products from regional distribution centers to stores.

They completed the first phase of their process to centralize project quotes, started with flooring.

They made progress in stabilizing margins and plan to expand new pricing and promotion analytics tools and continue to work closely with vendors to reduce Lowe's costs.

They are excited to be the exclusive home center channel for Craftsman, and are planning to expand Craftsman offerings as the year progresses.

They are also very positive about their expanded partnership with Sherwin-Williams, now the exclusive national supplier to Lowe's US retail outlets for interior and exterior paints.

Inventory turnover was 3.8 times, a decrease of 20 basis points compared to Q1 last year.

They cross-trained 17,000 non-selling associates so that they will be able to work the floor during peak periods and key holidays and promotions. They are also ramping up their strategic investment in associate training and education so associates can do a better job of engaging with customers.

They are anticipating recovering the majority of the sales they missed in the first quarter, and have factored that in to their guidance.

Other News:

Marvin Ellison will join Lowe's as CEO on July 2, succeeding Robert Niblock, who previously announced his intention to retire. Ellison was most recently chairman and CEO of J.C. Penney's, which he joined four years ago after a long career with The Home Depot.

Craftsman mechanics tool sets, tool storage products, flashlights and other products are now being stocked in Lowe's stores around the country, and Lowe's is moving ahead with stocking more tools in time for the holidays.

Walmart

Q1 revenue rose 4.4% to **$122.7 billion and comp sales at US stores rose 2.1%.** Results exceeded analysts' expectations. Walmart's online sales grew 33% in the first quarter after growing 23% in the fourth quarter, helping drive overall revenue above expectations. Net sales in the US rose 3.1% to $77.7 billion. Net sales at Sam's fell 2.7% to $1.3 billion.

Walmart remained the nation's largest corporation, taking the top spot on the Fortune 500 for the sixth year in a row and 14th time. Last year WM became the first company in US history to generate $500 billion in annual sales. Amazon moved into the top ten for the first time, ranking 8th.

Walmart updated their website in early May with new colors, fonts and layouts, and now sells 75 million items online, including many higher-end products not necessarily available in stores. The number of visitors to Walmart.com has grown 34% in the past year, double the 17% growth rate at Amazon, according to data from comScore. Of course, Walmart is coming from a very distant second place in terms of absolute numbers of visitors. Amazon had an online audience of nearly 183 million visitors in April, compared to Walmart.com's 101 million. Analysts say that much of Walmart's business is centered around lower-and middle-income shoppers, and they may pick up more customers as lower-income households decide they don't want to pay Amazon Prime's increase of 20%, which raises the annual price of membership to $119 a year.

Walmart is launching the Lord & Taylor store on their website with more than 125 brands, including Tommy Bahama, Lucky Brand and Vince Camuto as part of their efforts to attract more affluent customers.

Walmart's online grocery delivery partnerships with Uber and Lyft have ended abruptly. Walmart's decision to partner with Uber was announced with a lot of fanfare about two years ago. The arrangement was reportedly ended by Uber; an inside source acknowledged that it was incredibly difficult to meet expectations. Walmart says they will use other delivery service providers in the four markets where they'd been using Uber, and customers should not see any difference. Walmart was part of Uber's Rush service, which also delivers clothes, flowers and other goods urgently needed. Uber ended the entire Rush program at the end of May. Walmart is the country's largest grocer, and derives 56% of revenue from groceries. Industry analysts noted that moving cargo requires a different business model from moving people.

Walmart is testing a personal shopping service for busy moms called Jetblack. The service is described as a personal shopping and concierge service for subscribers that combines the convenience of ecommerce with the customized attention of a personal assistant. The Jetblack name comes from Marc Lore, CEO and founder of Jet.com and now head of Walmart's US ecommerce division. Lore reportedly had the idea for a high-end personal shopping service for Jet.com before it was acquired by Walmart in 2016.

Walmart is reportedly testing an entirely new store format in the Tampa Bay area. The new store has lower-profile counters, new signage, added assortments of specific brands that appeal to specific customer segments and many new convenience options such as express deli pickup, fresh pickup and cooler counters in the front of the store. The entertainment department looks like “an Apple store,” with modern black and white décor and accessible technology that customers can touch and try out. Walmart has also added more Pickup Towers, which are similar to Amazon’s lockers but more high-tech. They are 16 feet tall and look like giant vending machines. Customers scan their QR code and the tower retrieves the items ordered and drops them into the tray within two minutes. Customers reportedly love it.

Walmart beat out Amazon in the battle for control of Indian ecommerce giant Flipkart, which was founded by ex-Amazon employees in 2007. Walmart reported paid $15 billion for a 75% stake in the company. Analysts say that while the Indian market is huge, Walmart may also be using Flipkart as a model for the US. Analysts are already describing the new Flipkart as “Flipmart.”

Sears

Total revenue fell 31% in the first quarter to $2.89 billion. Total merchandise sales fell 34% to $2.2 billion. Comp store sales at Sears locations fell 13.4%, and declined 9.5% at Kmart stores. Sears operated 894 total locations as of May 5, down from 1,275 at the same time in 2017.

Sears announced they will close another 72 stores they have deemed unprofitable, and has hired advisors and initiated a formal sales process for Kenmore, the Sears Home Improvement and Parts Direct businesses and some real estate, as well as $1.2 billion in debt secured by the properties.

People who buy tires on Amazon will be able to have them installed at Sears Auto Centers around the country. Sears says it is the first deal of its kind between Amazon and a brick-and-mortar retailer.

ACE Hardware

Q1 revenue rose 6.0% to $1.31 billion. Comp sales rose 2.2%. Results were helped by a 34% increase in online sales coupled with new store growth from existing Ace retailers and rising conversions from competitors. Comp stores sales are reported by the 3,000 Ace retailers who share daily retail sales data; the increase came from a 3.3% rise in average ticket, partially offset by a 1.1% decrease in comp sales. Total wholesale revenues were up 5.3% to $1.25 billion, with increases noted across all departments. Total retail revenues were up 21.3% to $63.1 million. Ace added 28 new domestic stores in the first quarter and cancelled 28 stores. Revenue gained from the new stores was four times larger than revenue lost from cancelled stores.

John Tovar is the new VP of retail operations and new business. He joins Ace from GameStop, where he served as VP of merchandising; he has also held leadership roles with The Home Depot and 24 Hour Fitness. He’s taking over from Dan Miller, who retired in April, and will report to EVP John Surane.

W.W. Grainger

Laura Graham, Senior Vice President of Communications and Investor Relations, will retire July 1 after eighteen years with Grainger. Grainger will transition its Investor Relations and Communications functions. Investor Relations will be led by Irene Holman, who will report to Tom Okray, Senior Vice President and CFO. Communications will be led by Michele Mazur, who will report to the company's Senior Vice President of Human Resources, a role the company is actively seeking to fill.

Amazon

Amazon and Walmart are both improving their share of traffic among the top 100 shopping sites in the US, rising from a respective 29.6% and 5.3% to 30.7% and 5.9%. But Amazon’s traffic is higher-quality, with visits averaging more than 2.5 minutes longer and taking in five more pages per visit than Walmart according to “Amazon vs Walmart—The Battleground for Online Retail” a new study from SimilarWeb.

Amazon is trying to combat the “porch thief” problem by starting a new program to deliver packages to members’ parked cars. Amazon is rolling out the program in 37 US cities for customers with newer compatible vehicles and plans to expand the service. The in-car delivery service is free for Prime Members, and builds on a program launched last fall called Amazon Key that allows drivers to put packages inside homes.

Amazon is expanding Amazon Go, the little grocery store without checkout lines, to Chicago and San Francisco. No opening date was announced.

VP of Alexa Jim Freeman is the latest to depart from Amazon, adding to the string of a dozen executives and senior managers that have left the company over the past 10 months. While higher-ups had asked him to stay, he was finally poached by German ecommerce company Zalando. Freeman had a lot of support internally, having previously run Prime Video and Amazon Studios.

Synchrony Financial announced a partnership with Amazon that enables customers to manage their Amazon store cards using voice commands through Alexa. Synchrony plans to implement voice payment technology for all its retail cards in the future, according to company sources.

CANADA SNAPSHOT

GDP Grows 1.3%

The Canadian economy grew 1.3% during the first quarter to 1.877 trillion Canadian dollars, after falling 0.1% in January, according to Statistics Canada. Results were below economists' expectations. Household spending rose 0.3%, the slowest pace since the beginning of 2015. Consumers spent more on services, but spending on goods was flat. Housing investment fell 1.9%, the biggest quarterly decline in nine years. Housing investment grew a robust 3.2% in the fourth quarter as households tried to get ahead of new mortgage-financing rules that took effect in January. Nonresidential investment expanded. 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.

Unemployment Remains at 5.8%

Employment was little changed in May, leaving the unemployment rate at 5.8% for the fourth consecutive month. On a year-over-year basis, employment grew by 238,000 or 1.3%, due to gains in full-time work. Over the same period, total hours **worked were up 2.0%.** Employment increased in Prince Edward Island, while it decreased in British Columbia and Nova Scotia. There was little change in the other provinces. There were employment increases in four industries in May: accommodation and food services; professional, scientific and technical services; transportation and warehousing; and finance, insurance, real estate, rental and leasing. At the same time, employment declined in construction, manufacturing and other services.

Consumer Confidence Drops to 53.94

Consumer Confidence in Canada dropped to 53.94 in May, 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 0.3%

The consumer price index (CPI) rose 0.3% in April after rising 2.3% in March on a year-over-year basis, according to Statistics Canada. The increase was in line with economists' expectations. Excluding food and energy, core prices slipped 0.1% month over month. In annual terms, the CPI rose 2.2% in April, below expectations. The CPI rose 2.3% in March.

Interest Rates Steady

The Bank of Canada kept its key interest rate target steady at 1.25%, but hinted that rate hikes could be coming if the Canadian economy proved to be stronger than expected in the first quarter. The BOC's statement noted that housing resale activity has been soft as the market adjusts to new mortgage guidelines and higher borrowing rates. The BOC also noted that recent development reinforced its view that higher rates will be warranted to keep inflation near target, but that it will take a gradual approach and be guided by economic data. Most economists had predicted the BOC would hold rates steady, but most likely increase them later in the year. The next scheduled interest rate decision is set for July 11.

Canada U.S. Trade Updates

Despite reassurances that NAFTA talks were proceeding and that the US wanted to reach a workable agreement with Canada and Mexico, on the last day of May President Trump abruptly levied new tariffs on steel (25%) and

aluminum (11%) exported by Canada, Mexico and the European Union to the US. Canada promptly retaliated by levying tariffs on US goods being imported, including American metals, farm goods and other products. Mexico will levy tariffs on a variety of agricultural products as well as flat steel. While all three countries are major trading partners, steel and aluminum make up a tiny fraction of overall trade. In addition, analysts note that the US has actual little capacity to boost production at home and that rising prices for any imported products that use steel and aluminum will impact US consumers.

Housing and Construction News

The seasonally adjusted annual rate of new home construction fell to 214,739 units in April compared with 225,459 in March. The pace of starts in urban areas fell 4.7% to 198,090. The rate of single-detached urban starts fell 9.3% to 57,058. Rural starts were estimated at a seasonally adjusted annual rate of 16,289. The six-month moving average of the monthly seasonally adjusted annual rates dropped to 225,696 in April compared to 226,942 in March. The total investment in housing fell 1.9% during the first quarter, which was the largest decline since the first quarter of 2009.

Q1 Retail Sales Rise 3.9%

Retail sales rose 3.9% year over year in the first quarter, according to Statistics Canada, the lowest rate of growth in about eighteen months. Canadian ecommerce sales were up 14.8% year-over-year in Q1 2018 after rising 27.4% in 2017. While still high, it appears that e-commerce retail sales growth may be slowing down. Overall, ecommerce represented about 2.7% of total Canadian retail sales for the 12 months ending March 2018. Canadians' purchases from foreign websites do not factor into ecommerce sales. 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 Tire's Q1 revenue rose 3.3% to C$2.81 billion although earnings per share decreased from Q1 2017.

Canadian Tire acquired Norwegian sports and work textile producer Helly Hansen for C$985 million. Analysts said the move was designed to make Canadian Tire more internationally competitive.

Craftsman Tools are now available in Canada exclusively at Lowe's, Reno-Depot, RONA and Ace Hardware. Similar to the US, the initial offerings include Craftsman mechanics tools sets, tool storage and flashlights, with a broad range of Craftsman products phasing in to stores in time for the holidays.

MARKET TRENDS

Millennials Hurt by Housing Crunch

In a Trulia survey of US residents, 84% of millennials said they were willing to give up home features in exchange for living in their ideal neighborhood. Thirty-four percent would give up a garage, 32% said they didn't need a recently updated kitchen and 30% were willing to compromise on square footage. Just 16% said they were not willing to make concessions. A recent Harris Poll showed that 90% of millennials who want to buy a home in the next year have put their plans on hold, compared to 77% of Gen Xers and 61% of baby boomers.

Residential Construction Changing

The interest in modular, component and offsite construction models is being fed by the current shortage of labor, according to attendees at The Urban Land Institute's standing room only session in Detroit's Cobo Center designed for architects, developers, planners, builders and materials suppliers. Analysts cautioned that the inability to imagine a future markedly different from the past can eventually lead to being left behind as the industry changes. They noted that the most likely area for opportunity in residential construction is removing whatever does not add value from all phases of the construction process. Disruptive Innovation occurs when innovation creates a new market and value network that eventually displaces the established market leading firms, products and alliances. What they described as complex and controlled chaos rules the industry now, and many players find it difficult to imagine a workable way to automate, streamline and standardize a process that by its nature is dictated by conditions on the ground and in the market that vary widely from site to site.

Skills Shortage Hurting Construction

Job openings are at record highs, creating a shortage of

and competition for skilled labor that is creating a tough environment for construction. More than 90% of construction firms report they are having a hard time hiring qualified workers, according to findings from the USG Corporation and US Chamber of Commerce Commercial Construction Index. Of those, nearly half expect the problem to worsen over the next six months. More than half of respondents would like to employ more workers in the next six months if they can find them. Survey results were based on responses from more than 2,700 commercial and institutional contractors.

Amazon Partners with Lennar to Equip Smart Homes

Amazon has partnered with Lennar, one of the country's largest homebuilders, to integrate Alexa and smart home technology into all the new homes that Lennar builds. The pair began showing off what they call the Amazon Experience Center, a pre-wired, voice-activated smart home in eight locations across the country. Lennar plans to build Amazon's Alexa voice-assistant technology into the design of all of its houses nationwide from now on. The technology package will come standard and will not add anything to the base cost of the home. Alexa will be able to handle many of the mundane, everyday tasks that people currently do on their own, from finding a movie to watch via Amazon Prime on the Amazon Fire TV that comes with the home to scheduling automatic orders of household goods to locking doors and turning down the thermostat when it's bedtime. Customers will have the final say about whether or not to use the technology that comes with their home. Analysts have noted that integrating the technology takes the pressure off the consumer to choose, install, support and learn how to use something that sounds simple, but often is not, until you get familiar with it.

Robots for the Home

Amazon's Alexa could soon be embodied in a camera and microphone-equipped mobile robot that will follow you around the house. It will be the first mass-market home-droid when it goes on sale next year. Robots can be programmed to recognize people and follow them around, answer questions, turn on smart devices and even act as security systems, detecting smoke or filming intruders. Amazon's robot is reportedly codenamed Vesta, after the Roman goddess of the hearth and home, and is being developed by Amazon's Lab126, the hardware division responsible for Echo smart speakers and Fire TV sticks. One of the challenges is designing a robot that can navigate the ever-changing interior of a home as opposed to traveling through a static environment like a warehouse. Another behavior is teaching robots to interact meaningfully with their humans and understanding that human behavior can vary widely from household to household.

Job Tasks Will Change

A detailed study of the impact of artificial intelligence (AI) by McKinsey found that about one third of the tasks performed in 60% of today's jobs are likely to be eliminated or altered significantly by coming technologies. So while the jobs will still be there, what people do on a day-to-day basis will change dramatically. To date, robotics and digital technologies have mostly affected routine tasks like spell-check and dangerous and hard jobs, like lifting heavy objects onto a moving assembly line. Integrating robotics into daily life begins with defining the problems humans want new technologies to solve and then ensuring that technologies are designed simultaneously with the work systems which with they will be paired. Companies will need to invest in continuous training so workers can influence use and adapt to technological changes before they are introduced.

New Distribution Strategies

Target is testing a new distribution strategy designed to speed up restocking, cut what Target calls the "replenishment cycle" from days to hours, and reduce inventory, especially at new small-format stores and locations in denser urban areas. The pilot program is now being tested in New Jersey, where the pilot warehouse uses the same pool of inventory to restock stores and fill online orders, a departure from Target's existing supply chain. The company ships to stores more frequently and in smaller lots tailored more precisely to demand rather than shipping in cases of product. Target is investing $7 billion in store and digital improvements. Nearly 70% of Target's online volume was handled by stores during the 2017 holiday season. The US retail pharmacy division of Walgreens also uses an integrated supply chain to serve both ecommerce customers and retail stores, where shipments of big caseloads of products remain the exception. The company says that they have small stores with a lot of slow-moving items, and there is no room to replenish with cases.

AI in the Sky

Sky News used artificial intelligence to identify guests at the wedding of Britain's Prince Harry and American Meghan Markle in May. AI identified guests and displayed names and details about how they are connected to the royal couple. Sky News announced the live-stream service in partnership with Amazon and several data and engineering firms. The wedding commanded a massive global audience; more than 5,000 members of the media were accredited to cover the event. No heads of state were invited, not even British Prime Minister Theresa May. Instead all of the invitees had a direct relationship with the couple. The celebrity recognition feature could pave the way for its use at other high-profile events and could have other more broad-ranging applications.

Target Uses Augmented Reality to Help Consumers Make Better Choices

Target offers more than 1,000 cosmetic brands, and knows that having that much to choose from can intimidate shoppers. So they are introducing Target Beauty Studios, a solution that merges augmented reality, artificial intelligence and real-time facial mapping technology to help make it easier for shoppers to make the choice that's right for them. Customer will be able to use the technology online, through Target's mobile app and through dedicated digital screens in stores to virtually "try on" makeup and see how it works for them. Currently, 10 stores are testing the technology, with more expected to add the solution later this year. Separately, Target is also giving shoppers access to their in-store beauty concierge representative via a new text service that delivers real-time advice, from tracking down a specific product to choosing between two shades. By clicking on icons, customers will also be able to chat with a beauty consultant in real time.

Website Personalization Increases

Shoppers are seeing more retailers personalize their web experiences. Walmart is working to build stronger customer connections. Walmart will include a section that highlights top-selling items in a customer's location, features services like online grocery that are available in the area and offers easy ways for people to purchase items that they have bought frequently both in store and online. Ecommerce CEO Marc Lore says that building emotional ties with shoppers starts with offering emotional content. Amazon has set the standard for recommending products based on what people have bought or searched for, but some smaller online retailers are even further along in customization. At online clothing retailer Stitchfix, customers fill out questionnaires that allow stylists and algorithms to find appropriate fashions. At Wayfair, shoppers who browse a certain category, such as modern furniture, won't be presented with traditional designs unless they ask for them.

Not So Many Happy Returns

Amazon is the latest retailer to crack down on shoppers they believe are abusing their generous return policies. Amazon joins a growing list of companies using algorithms and services like Appriss Retail, formerly known as The Retail Equation, to track consumers' shopping and return habits. Some shoppers are being banned and their accounts terminated if their returns are deemed excessive or suspicious. Customers report that they received terse emails letting them know their business was no longer welcome, or in some cases were just kicked off the shopping site. A spokesperson for Amazon said that unfortunately there are rare occasions where someone abuses their service over an extended period of time. In February, L.L. Bean revised their 100% satisfaction guarantee return policy to have a one-year limit; Bean notified customers, and told the media that the purpose was to stop some people from using it as a lifetime product replacement program.