

Market Briefing

2016 Issue 9 News from the month of August 2016



BOSCH
Invented for life

Bosch

Dremel

Skil

RotoZip

Vermont American

CST/berger

David White

freud

Sia

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- NE 40.0%, MW 1.2%, W unchanged, S 18.1%

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U.S. ECONOMY

EXCHANGE RATES AUGUST 31, 2016

Euro	1 Euro = \$1.119	\$1.00 = 0.893 Euros
Canadian Dollar	1 CAD = \$0.756	\$1.00 = 1.322 CAD
Japanese Yen	1 Yen = \$0.008	\$1.00 = 121.233 Yen
Chinese Yuan	1 Yuan = \$0.156	\$1.00 = 6.375 Yuan
Mexican Peso	1 Peso = \$0.059	\$1.00 = 16.734 Pesos

MARKET WATCH AUGUST 31, 2016

DOW	18,401	-0.2%
NASDAQ	5,213	1.0%
S&P 500	2,171	Flat

It was a relatively quiet month for the markets, which managed to hang on to most of the gains made in July. The DOW shed 0.2% to close at 18,401, the NASDAQ gained 1.0% to close at 5,213 and the S&P, the index most closely followed by economists, shed three points to close statistically flat for the month at 2,171.

CONSUMER CONFIDENCE RISES TO 101.1

The New-York based Conference Board's Consumer Confidence Index rose to 101.1 in August after rising to a downwardly revised reading of 96.7 in July. It was the highest level of confidence in nearly a year. The Present Situation Index rose to 123.0 after rising to 118.8 in July. The Expectations Index improved to 86.4 after dropping to a downwardly revised 82.0 in July. The Conference Board said that consumers were generally more positive about current conditions, the outlook for the labor market and the near-term prospects for the economy and business conditions. Economists say a level of 90 indicates that the economy is on solid footing and a level of 100 or more indicates growth. Analysts caution that the real driver behind consumer spending is income growth and that labor market trends are a more accurate predictor of consumer behavior.

CONSUMER SPENDING GROWS 0.3%

Consumer spending grew 0.3% in July after rising 0.4% in June. Personal income, including wages and salaries, went up 0.4%, after rising an upwardly revised 0.3% in June. Income has been rising slowly but steadily over the year. The personal saving rate rose to 5.7% in July from an upwardly revised 5.5% in June. The personal consumption expenditures price index (PCE), the inflation measure preferred by the Federal Reserve, rose 0.1% in July after rising by the same amount in June. The index rose 0.8% over the past year, but is still well below the Fed's 2% target. The price index excluding the volatile categories of food and energy also increased 0.1% in July after rising 0.1% in June, and was up 1.6% from a year ago. Economists said the report was "solid" and strengthened the likelihood the Fed will raise rates sometime this year. Consumer spending is closely watched by economists because it accounts for 70% of U.S. economic activity.

CONSUMER PRICES UNCHANGED

The Consumer Price Index (CPI) was unchanged in July after rising 0.2% in June, ending four consecutive months of increases. Prices were pulled down by falling energy prices, with gasoline dropping nearly 5%. In the 12 months through July the CPI increased 0.8%. Core prices, which strip out volatile food and energy costs, rose 0.1% in July after rising 0.2% in June. In the 12 months through June core inflation was up 2.2%, the eighth consecutive month of growth of 2.0% or more.

UNEMPLOYMENT REMAINS AT 4.9%

The unemployment rate remained at 4.9% in August, but the economy added just 157,000 new jobs, fewer than the 180,000 jobs economists were expecting. Average hourly earnings also slowed down, increasing just 0.1% in August after rising 0.3% in July. Many of the job gains came from government hiring. The private sector added just 126,000 jobs in August. The manufacturing sector lost 14,000 jobs and construction shed 6,000 jobs. It was a disappointing report that could indicate the economy is slowing down and make it less likely the Fed will raise interest rates in September.

DURABLE GOODS ORDERS RISE 4.4%

New orders for durable goods rose 4.4% in July after dropping 4.0% in June. It was the biggest increase since last October. Orders for non-defense capital goods excluding aircraft, a category that serves as a proxy for business investment spending, rose 1.6% in July after rising 0.2% in June. Economists noted that back-to-back increases in this category are an encouraging sign that business capital investment activity might be on the verge of a long-awaited rebound. A sharp rise in core orders and a modest gain in inventories suggests that business investment will provide a modest boost to the economic recovery. However, core orders are still down 4.3% over the first seven months of this year, compared to the first seven months of 2015. July's increase was led by growing demand for transportation equipment, with a big boost from the volatile category of civilian aircraft. Shipments of core capital goods, which factor into GDP calculations for business spending, rose 0.2% in July after falling 1.3% in June. The durable goods report is often both volatile and subject to sharp revisions.

CHICAGO PMI FALLS

The Chicago PMI fell 4.3 points to 51.5 in August from 55.8 in July, led by a big setback in Order Backlogs and a slowdown in New Orders. Four of the five components fell in August. Only Employment increased, hitting a 16-month high. The PMI overall as well as the New Orders and Production components was at the slowest pace since May, when they all slipped below 50. Order Backlogs fell 14.5 points to 41.7, moving back into contraction territory and falling to the lowest level since April. Inflationary pressures eased slightly for the fourth consecutive month, leaving Prices Paid at the lowest level since March 2016.

WHOLESALE PRICES FALL 0.4%

The Producer Price Index (PPI) fell 0.4% in July after rising 0.5% in June and was up 0.2% from July 2015. It was the biggest drop in wholesale prices since last September. The core PPI, which excludes food, energy and trade services, dropped 0.3% in July after rising an upwardly revised 0.4% in June and was up 0.7% in the 12 months through July. The decline was led by a 1% drop in energy prices and a 1.1% drop in food prices. Inputs to

construction were basically unchanged in July, and were down 0.2% year-over-year. Excluding food, energy and trade services, the most volatile components of the PPI, producer prices were little changed.

Q2 GDP GREW 1.1%

GDP grew 1.1% in the second quarter, down slightly from the 1.2% growth first reported but in line with economists' expectations. The economy grew 0.8% in the first quarter. Consumer spending was revised to show an increase of 4.4%, up from the 4.2% growth first reported. Consumer spending accounts for 70% of economic activity. Business inventories sliced 1.26% from GDP growth, the biggest drag in more than two years, and up from 1.16% in the first estimate. It was the fifth straight quarter that inventories weighed on output. Corporate profits fell 1.2% after rising 3.4% during the first quarter, and were down 4.9% from a year earlier. A weakening profit picture could spell trouble for already slow business investment and possibly cut into hiring, which has been strong so far this year. Government spending fell 1.5%, more than the 0.9% first reported. To get a better sense of demand in the U.S., economists track final sales to domestic purchasers, which is essentially GDP excluding inventories and net exports. That measure rose 2.2% during the second quarter, up slightly from the 2.1% first reported.

JOB OPENINGS RISE

There were 5.6 million job openings in June, up from 5.5 million in May, according to the June Job Openings and Labor Turnover Summary (JOLTS) report. On a three-month moving average basis, job openings are up 5.3% over the past year compared to a 16% jump over the same time period last year. The retail sector has seen the biggest jump in openings over the past year, and openings among durable goods manufacturers are at a 12-month high. There were 4.8 million hires in the private sector and 4.9 million total separations, including 2.7 million quits. The number of job openings has consistently exceeded the number of hires. Quits are typically voluntary separations, and an increase in quits generally indicates that people are more confident about their ability to find another job. The JOLTS report is one of Fed Chair Janet Yellen's preferred economic indicators.

YELLEN ON INTEREST RATE INCREASE

Fed Chair Janet Yellen said the case for a rate hike has strengthened in recent months, but gave no date for an increase in rates. She reiterated previous statements that interest rate increases would be gradual and the Fed expects inflation to eventually reach its target of 2%. The Fed next meets on September 20. Many economists believe the Fed will not act until after the presidential election in November. Federal Reserve policymakers continue to project a rate increase to 0.9% by the end of this year, 1.6% by the end of 2017 and 2.4% by the end of 2018.

ECONOMIC GROWTH TO PICK UP

The U.S. economy is on track to grow at a 3.7% annualized rate in the third quarter, up from 1.1% growth in the second quarter. The annual forecast is down from the 3.8% growth forecast in mid-August by the Atlanta Federal Reserve's GDP Now forecast model. The change in the forecast is based on the latest data on wholesale inventories, which shows that inventories for June rose 0.3% after having been initially estimated as unchanged and inventories for May were adjusted higher to show a 0.2% rise instead of the previously reported 0.1% gain. The unexpected increase caused the Fed to lower the estimated contribution to GDP from inventory investment.

DIGITAL PRICE INDEX MIXED

Adobe reported that its sixth monthly Digital Price Index (DPI) shows continued deflation in the vast majority of the goods and services the DPI tracks, with essentials such as groceries showing firmer prices than discretionary purchases such as toys, electronics and sporting goods. Online grocery sales were up 66% year-over-year. The share of groceries purchased online and picked up in-store rose from 18% in January 2015 to a record 45% in July 2016; 55% of orders were delivered to the customer's home. One of the few categories to show increasing prices was non-prescription drugs. Adobe reports that the DPI tracks \$7.50 out of every \$10 spent online with the top 500 U.S. retailers.

HOUSING & CONSTRUCTION

HOUSING STARTS RISE 2.1%

Housing starts rose 2.1% in July to a seasonally adjusted annual rate of 1.21 million units after rising to 1.19 million units in June. Single-family starts rose 0.5% to a seasonally adjusted annual rate of 770,000 in July from 778,000 units in June. Single-family starts are up 10.6% on a year-to-date basis. Multifamily starts rose 5% to a seasonally adjusted annual rate of 441,000 units from 411,000 in June. NAHB says new household formation is increasing the demand for multifamily housing. Regional starts were mixed. Starts rose 15.5% in the Northeast, 2.3% in the Midwest and 3.5% in the South. Starts fell 5.9% in the West.

BUILDING PERMITS FALL 0.1%

Building permits fell 0.1% in July to a seasonally adjusted annual rate of 1.15 million, little changed from June. Single-family permits fell 3.7% to a rate of 711,000 units. Multifamily permits rose 6.3% to a rate of 441,000 units. Regional permit issuance was mixed. Permits increased 10.5% in the Midwest and 2.6% in the South. Permit issuance fell 8.0% in the West and 10.2% in the Northeast. Permits have been above the one million level for thirteen consecutive months, the longest stretch in seven years.

NEW-HOME SALES RISE 12.4%

Sales of new single-family homes rose 12.4% in July to a seasonally adjusted annual rate of 654,000 units after rising to 592,000 units in June. It was the highest reading in nearly nine years. The inventory of new homes for sale fell to 233,000 from 244,000 in June, a 4.3-month supply at the current sales pace. In a normalized market, housing is generally at a six-month supply. Regional sales were mixed. Sales rose 40% in the Northeast, 18.1% in the South and 1.2% in the Midwest. Sales were unchanged 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 FALL 3.2%

Existing home sales fell 3.2% in July to a seasonally adjusted annual rate of 5.39 million after rising to 5.57 million in June. Sales were down 1.6% from July 2015, only the second time in 21 months that year-over-year sales have declined. Total housing inventory at the end of July rose 0.9% to 2.13 million existing homes available for sale, but was still 5.8% lower than in July 2015. Inventory has now declined year-over-year for 14 consecutive months. Unsold inventory is at a 4.7-month supply at the current sales pace, up from 4.5 months in June. **Regional sales were mixed.** Sales fell 13.2% in the Northeast, 5.2% in the Midwest and 1.8% in the South. Sales rose 2.5% in the West. Overall sales, which reflect closings, are down 1.6% from July 2015 but inventory is down 5.8% from what was a historically low level. Low levels of inventory remain a challenge and are considered one of the biggest obstacles to a robust housing recovery.

BUILDER CONFIDENCE RISES TO 60

Builder confidence rose two points to 60 in July from a downwardly revised reading of 58 in June. Two of the three components posted gains in August. The component gauging current sales conditions rose two points to 65 and the index charting sales expectations for the next six months rose one point to 67. However, the component measuring buyer traffic fell one point to 44. The three-month moving averages for regional HMI scores were mixed, with the South rising two points to 63 and the Northeast rising two points to 41. The West was unchanged at 69 while the Midwest dropped two points to 55. It was the seventeenth consecutive month the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) remained above 50.

MORTGAGE RATES FALL SLIGHTLY

The 30-year mortgage rate fell slightly to 3.43% at the end of August after holding at 3.48% at the end of July, In August of last year 30-year rates averaged 3.84%. Mortgage rates have been below 3.5% for nine consecutive weeks. For the first time since 2012 mortgage originations are expected to top \$2 trillion in 2016. Near-historic low mortgage interest rates are spurring a burst of refinance activity. Low rates are also supporting strong home sales,

which are expected to reach their highest level since 2006. House price growth also remains strong and low levels of inventory across many markets will continue to put upward pressure on house prices for the foreseeable future, according to Freddie Mac.

POWER TOOL INDUSTRY

ROBERT BOSCH

Bosch awarded their third round of energy research grants, which totaled \$1.7 million, and sponsored 15 interns in the area of energy for 2015-16. Following a competitive grant selection process in 2015, the Bosch Energy Research Network (BERN) provided six seed-funding grants to faculty at five top U.S. universities. The grants continue Bosch's long-term focus on energy-efficient technologies, in addition to their support of leading U.S. universities. BERN is a Bosch initiative in the United States for collaborative research into transformational energy technologies. In the U.S., BERN is allocating more than \$10 million between 2011 and 2017 to support energy research at top engineering research universities and will fund more than 25 university research grants, with the goal of developing transformative energy technologies for series production. Following a two-stage competitive grant selection process, Bosch chose six proposals – on topics of combustion, energy conversion, energy storage and energy usage efficiency/smart grid – to receive two-year grants of up to \$150,000 per year. The selected proposals include investigating the next generation of solid state lithium-ion batteries from the University of Michigan and high performance solid electrolytes for batteries from the University of California at Berkeley. More than half of Bosch's \$7.1 billion R&D budget for 2015 was focused on products that contribute to energy efficiency, environmental protection and resource conservation. Nearly 55,800 Bosch researchers and developers design, test and research innovative systems, components and methods worldwide; more than 2,800 Bosch associates are dedicated to R&D in the Americas.

NEWELL BRANDS

From their Q2 conference call with analysts:

The 147% increase in net sales was primarily due to the Jarden acquisition. There will be a similar step-up impact of around \$130 million in the third quarter because they expect virtually all of the remaining Jarden inventory to turn.

Advertising and promotion spending on Newell legacy businesses increased 50 basis points in the quarter, driven by incremental investments behind new products.

Core sales in North America, which represent 79% of total sales, grew 6.7%.

Tools net sales dropped 3.8%, reflecting continued weakness in Brazil and negative foreign currency. Core sales declined 2.3% as growth in North America was offset by Brazil macro challenges and industrial sector softness in China.

They've committed to achieve an incremental \$300 million in Project Renewal savings over the next few years. Against that target, they've delivered \$70 million in the first half of 2016.

They are making good progress on developing a new strategy for Newell Brands. Mark Tarchetti and his team led by Russ Torres is leading the dialog and much of the thinking. In August they solicited input from the Board of Directors.

They continue to expect 2016 full-year Newell Brands core sales growth of 3% to 4%. Where they fall in the range will depend on three things: the success of their second half drive periods of back-to-school on Writing and the holiday selling season on Yankee Candle; the delivery of Project Renewal cost savings and the transaction cost synergies and product line exits.

They expect to begin to exit product lines with \$250 to \$300 million of revenue over the next two to three years. They anticipate that two-thirds of that will come

from Jarden businesses. They want to make whatever changes they are going to as quickly as possible.

As part of their joining together with Jarden, the executive team spent a full week going through operating reviews for every business unit. The cost savings generated will be used to help them unleash core capabilities that have the opportunity to differentiate their brands.

The current executive team is set, however they are considering adding a supply chain leader to the team.

They see a significant opportunity for IT investment in the Jarden businesses.

They will definitely be investing in ecommerce, both direct-to-consumer and with purely online retailers, as well as the online businesses of brick and mortar retailers. There is a shift in shopping behavior underway in the U.S. and they are committed to reaching customers where they shop. In order to do that, they need to invest in specialized skills, and they intend to continue to beef up their investment in this area. That doesn't mean taking resources away from brick and mortar partners; Walmart is their biggest partner, and 95% of Walmart's business with Newell Brands is in-store.

TRIMBLE

Q2 revenue rose 4% to \$609.6 million. Engineering and Construction revenue rose 4% to \$351.2 million. Foreign currency translation had a neutral impact on company revenue compared to the second quarter of 2015. CEO Steven Berglund said results met their expectations, and despite Brexit and the outcome of the U.S. elections they anticipate higher growth in the second half of 2016 and into 2017.

Trimble acquired AXIO-NET GmbH from Airbus Defence and Space. Based in Hannover, Germany, AXIO-NET is a major provider of Global Navigation Satellite System corrections and professional data services in Germany, the United Kingdom and Benelux. Financial terms were not disclosed. AXIO-Net was founded in 2008 and provides services for the geospatial market as well as emerging high-accuracy GNSS markets such as automotive.

RETAIL

RETAIL SALES FLAT

Retail sales were essentially flat in July after rising an upwardly revised 0.8% in June and were up 2.3% year-over-year. Online retail sales rose 1.3% after rising by the same amount in June, and were up 10.6% over the first six months of the year compared to 2015. Core retail sales, which exclude automobiles, gasoline, building materials and food services, were flat in July after rising a solid 0.5% in June. Core retail sales correspond most closely with the consumer spending component of GDP. Sales of building materials fell 0.5% after rising 3.9% in June. Results were well below analysts' expectations, and indicate that consumer spending could moderate in the third quarter. Retail sales account for about one-third of all spending, with services making up the other two-thirds.

THE HOME DEPOT

Q2 sales rose 6.6% to a record \$26.47 billion. Comp store sales rose 4.7% overall and 5.4% in the U.S. For fiscal 2016, they expect sales to grow by 6.3% and comp sales to grow 4.9%.

From Their Q2 Conference Call with Analysts:

All three U.S. divisions posted positive comps for the quarter, with the Western region leading the way. All 19 U.S. regions and top 40 markets posted single to double-digit comps.

Total comp sales grew 2.2% for the quarter, and comp average ticket increased 2.5%. Ticket growth was driven by an increase in the number of items per transaction, an indication that project activity is picking up. Average ticket was positively impacted from some commodity price inflation, mainly in building materials and lumber.

Transactions for tickets over \$900, which account for about 20% of U.S. sales, rose 8.1%, driven by appliances, HVAC and roofing.

Tools outperformed the company average, as did lumber, plumbing, décor, indoor garden, building materials and lighting.

Pro sales grew faster than average, led by their high spend Pro customers. Power tools and power tool accessories outperformed the average.

Their online business grew strongly with double-digit traffic growth and better conversions. Mobile and tablet accounted for more than half of their traffic. They are enhancing the functionality in mobile with features like larger and more clear product images, live mobile chat and a simplified checkout experience.

Approximately 42% of online orders are picked up in store, and nearly 90% of returns are processed in store.

For the third quarter they will be introducing the DeWalt FlexVolt system to Pro customers. They are also introducing some other smart products, including a smart Ryobi garage door opener.

A mistake in one of their internal programs caused them to under-order some inventory during the quarter; that mistake has been corrected.

They are very pleased with sales on their private label credit cards, particularly their Pro card. New Pro accounts are up double digits, well ahead of their expectations.

They are testing a program that allows customers to shop the Interline assortments inside 20 Home Depot stores.

When a basket contains 40 to 80 items, you know the customer is doing a project. Those type of baskets have been increasing.

There were promotions they did last year that they did not repeat this year. They are increasingly focused on providing everyday value.

Sync is the biggest initiative they have in place to improve their in-stock, inventory productivity and logistics costs. Sync is currently in 12 of their 18 RDCs and handling about 60% of the dollar volume that goes through their RDCs. They are seeing improved transportation costs and smoother demand flow and are working with their suppliers to continue to improve those benefits throughout the supply chain. Between 2011 and 2015 the supply chain has driven 68 basis points of gross margin expansion, so has been very productive.

Their new Customer Order Management System (COM) is now fully deployed in all U.S. stores. They expect the rollout of Buy Online Deliver From Store (BODFS) to be completed by the end of the fiscal year.

LOWE'S

Q2 revenue rose 5% to \$18.26 billion, well below analysts' expectations. Comp store sales rose 2%, less than half of the 4.2% increase analysts were expecting. Lowe's attributed the lackluster results to their acquisition of Canadian home improvement chain Rona on May 20. It was the first quarter Rona was included in their results.

Lowe's now expects revenue for 2016 to increase about 10%, including an extra week in the fiscal year. Same-store sales are expected to climb about 4%. Lowe's cut their earnings outlook for the year from \$4.16 per share to \$4.11. They expect Rona to contribute 4% to sales growth, and estimate that the 53rd week in the fiscal year will add 1.5% to total sales.

From Their 2016 Conference Call with Analysts:

The 2% growth in comp store sales in the quarter was driven primarily by a 1.7% increase in average ticket. U.S. stores achieved comp sales increases of 1.9%, with strong performance in the south and west regions compensating for northern regions affected by unusually cool weather that impacted outdoor projects.

Total costs per transaction grew 3.7%, with RONA accounting for about 75% of the increase. Total average ticket grew 1.6% to \$68.91. The ticket increase was driven by

the addition of Rona and an increase in comp sales and new stores. The number of comp transactions grew 0.3%.

They posted positive comps in 10 of 13 product categories, below their expectations. They attributed above average comps in kitchens to a change in the way they do store displays. They have moved kitchen solutions, including cabinets and countertops, so they are immediately adjacent to appliances.

The timing of spring impacts the first half of their year.

This year spring kicked off with robust demand for outdoor projects as customers took advantage of favorable weather. In the second quarter, there was more strength in indoor projects demand, with strong performance in lumber and building materials.

Their outdoor/seasonal business typically contributes about 40% of overall sales, which is why adverse weather disproportionately affects them.

Their Pro business continues to perform well above the company average.

They have made strategic investments to build deeper relationships with Pro customers. There was almost a 400 basis point gap in Pro comps compared to DIY comps. Pro is now approximately 30% of their overall volume, and continues to grow at a faster rate than their DIY business.

They are working closely with field-based merchandising teams to identify local market opportunities and brands that will appeal to Pro customers.

The LowesForPros.com website was relaunched during the second quarter and is gaining traction.

They expect home improvement spending to continue to outpace consumer spending overall. They expect the strengthening housing market and continued appreciation in home values and incomes to motivate people to spend money on their homes.

Tools and hardware benefited from increased project activity from both their DIY and Pro customers. They are improving their tool brand assortment and adding

exclusives like Hitachi and Bostich in pneumatics. They have also reintroduced Marshalltown, the leading supplier of cement masonry tools to Pros; their products will soon be rolling out to stores. They are also utilizing Account Executive ProServices, or AEPs, who work with larger regional customers.

They launched their new Lowes.com website with optimized functionality and display for touch-screen devices to improve the mobile experience, improved product and content recommendations, refined search algorithms, improved click-to-chat capability, larger product images and expanded product views, including video content. Predictably, the restaging of the website caused temporary disruption as customers adjusted to the new site, but now they are seeing improved performance and getting good customer feedback. Lowes.com comp sales grew 14%.

Their interior and exterior project specialists are now the critical element of their omnichannel strategy. Exterior project specialists are currently available in all U.S. stores, and they are expanding their interior specialists program.

They continue to utilize media mix modelling to optimize every dollar, and migrate from print advertising and analog into digital. They have a very strong social media footprint on Snapchat, Facebook and Instagram, and drove 27 million impressions on social media alone in the second quarter.

The integration with Rona is being handled by Richard Maltsbarger, Lowe's head of International. Their initial focus has been on getting the right leaders and right structure in place as they shape a new culture to compete in Canada.

WALMART

Q2 sales rose 0.5% to \$121 billion; net income rose 8% to \$3.8 billion. Comp store sales rose 1.6% and the number of transactions in U.S. stores was up 1.2%.

Walmart acquired Jet.com for \$3 billion. The online shopping site described as a "digital general store" was founded in 2014. Walmart hopes the acquisition will help

them reach a broader range of shoppers and become more competitive with online behemoth Amazon. Walmart CEO Doug McMillon has said that their online growth is too slow. Jet CEO Marc Lore will become Walmart's CEO of ecommerce, responsible for both Walmart and Jet brands in the U.S.

Walmart's online sales of \$14 billion last year accounted for a scant 3% of their top line. Last year Amazon's revenues excluding Amazon Web Services grew 20% to \$100 billion. Last summer Amazon passed Walmart in terms of market value, and today, valued at \$350 billion, is about 60% larger. Jet.com started out as a membership site with a \$50 fee, but quickly dropped that model. Analysts say buying Jet.com isn't going to catapult Walmart into first place, but might make them more competitive with Target. According to Walmart, Jet.com will remain a separate brand.

Walmart is trying out a new scheduling system in hundreds of Neighborhood Market test stores that is designed to give employees more control over their hours. Workers are unhappy about unpredictable work schedules. Under the changes, some full-time and part-time employees would be able to have fixed schedule for up to six months. Most employees would stay on the current scheduling, which is three weeks advance notice of schedules. Walmart is the country's largest private employer so their programs can be industry changing. After they announced in 2014 they would raise minimum wage for store employees, other retailers followed suit. Many retailers use a system called on-call scheduling, in which employees are told to come in or stay home with little notice.

SEARS

Sears Holdings posted another quarterly loss, with revenue dropping 8.8% to \$5.66 billion. Comp store sales fell 7% and Kmart's comp store sales dropped 3.3%. Revenue was also affected by a decline in the number of stores in operation. Sears accepted a \$300 million debt-financing offer from CEO Edward Lampert's hedge fund. Lampert took over the company in 2005 and merged it with Kmart; his fund controls a large percentage of Sears' outstanding shares. Analysts continue to question how long Lampert can keep Sears afloat.

W.W. GRAINGER

Sales increased 3% in July compared to July 2015.

Growth included a 4% contribution from Cromwell Group, acquired September 1, 2015. Excluding acquisitions, organic daily sales fell 1%, driven by a 1% drop in price and flat volume. Sales in the U.S. fell 2% and sales in Canada fell 19%, or 14% in local currency. The month of July 2016 had 20 selling days, two fewer than the previous year. The 2016 third quarter will have 64 selling days, the same as the 2015 third quarter.

DG Macpherson will succeed Jim Ryan as CEO effective October 1. This is part of the multiyear succession process that will be completed when Macpherson takes on the Chairman role as well when Ryan retires. Jim Ryan is only the fourth CEO in Grainger's 89-year history, and he will stay on as Chairman of the Board for now. Macpherson joined Grainger in 2008 after working closely with them for six years as a partner and managing director at Boston Consulting Group. No other executive changes are planned at this time. No date was given for Macpherson taking over as Chairman.

AMAZON

From Amazon's Q2 Conference Call with Analysts:

Amazon's North American revenue grew 28% to \$17.7 billion. Marketplace sales now account for 49% of Amazon's total number of units sold. Amazon sales account for 60% of all ecommerce sales.

Amazon wants to make sure that growing fulfillment costs don't take a bite out of their holiday quarterly earnings this year as happened last holiday. Amazon is adding 18 warehouse facilities in the third quarter to get ready for the holiday surge; last year they added six.

Amazon Web Services saw year-over-year growth of 58% on annual revenue of more than \$12 billion; they also reported 35% operating margins. Analysts say that Amazon's results show that eventually there will be only two SuperCloud vendors: Amazon and Microsoft.

For Q3 they expect net sales to grow 22% to 32%, to between \$31 and \$33.5 billion. Their guidance includes results from Amazon Prime Day.

They've added 11 metro areas to Prime Now, bringing the total metros with Prime Now to more than 40. They said Prime Now is a very hard service to deliver and make money on, but they know customers love it, and they are looking at the long term and expanding their vast global fulfillment network.

They described Amazon Prime as the "flywheel" of revenue growth acceleration. They will continue to expand Prime benefits globally. They do not comment on the number of Prime members, but say there is plenty of upside potential.

They approach China as a way to offer Chinese customers access to authentic international brands through Amazon GlobalStore. They are seeing good results in China.

Other News:

Amazon has partnered with the UK government to test how practical it would be to use drones to deliver small packages to shoppers. The UK has given Amazon permission to test drones carrying deliveries weighing five pounds or less. If the test goes well, Amazon will start drone delivery under the name Amazon Air.

Amazon unveiled its first branded Prime Air cargo plane, Amazon One, at the annual Seafair Air Show in Seattle. It's one of 40 jetliners that will make up their own air transportation network, part of Amazon's push to take more control of its delivery process. Amazon's parcel volume was an estimated 1 billion packages in 2015. Amazon is leasing the jets; eleven of the planes are already delivering packages for Amazon Prime customers. Amazon says they will continue to use UPS, FedEx and the USPS to deliver packages as well.

Amazon is looking to convert a large proportion of their campus recruitment interviews into online tests, saving time and money for recruiters and candidates. Amazon

started testing the idea last year with their intern candidates and found that it reduced the number of interviews from around four to one.

Target is once again selling Amazon's Kindle e-readers, Fire tablets and Fire devices online, and they are expected to return to Target stores in October, in plenty of time for the holiday season. Target stopped selling Amazon devices in 2012, due to concerns that the items would help draw customers to Amazon, and away from Target. In 2001, Target outsourced their ecommerce business to Amazon, because at the time online shopping was not seen as part of their core business. That partnership continued until 2011.

Amazon may be considering drive-up grocery hubs where customers could come and pick up their online grocery orders. Testing sites have been identified in Seattle and California. Amazon has been close-lipped about the venture, but local news outlets identified the company behind "Project X."

MARKET TRENDS

55 PLUS POPULATION TRENDS

People 55 years of age and older comprise a little more than a quarter of the U.S. population, but they control roughly two-thirds of the equity in single-family homes. For most of these households, their home is their largest asset. A 65-year-old who bought the "average" house at age 30 has seen the value of that house increase 3.7 times since then. The size of this population and their housing wealth guarantees that they will play a big role in shaping the housing opportunities available to the generations that follow them. Older Americans are much more likely to be or have been married than those under 55. Fully 42% of the population under 55 has never married; only 8% of the 55+ population has never married. More than half of the 55+ group has lived in the same residence for ten years or more; only a quarter of the under-55 population has lived in the same place this long.

Attitudes towards current and future housing options were uncovered in a survey commissioned by Freddie Mac and carried out by market research organization GfK in early 2016. Some results:

More than two-thirds want to age-in-place in their current residence. The majority are very satisfied with both their community and their home.

Almost a quarter indicate they are going to need to make major renovations in order to stay in their current home for the rest of their lives. Other studies indicate this number may be unrealistically low.

However, many who plan to age-in-place in their home intend to buy another home more suited to doing so. They're looking for community affordability, amenities and less maintenance.

More than three-quarters of homeowner respondents are very or somewhat confident that they will have a financially comfortable retirement. However, less than half of the renters were somewhat confident they will be financially comfortable.

More than a third still have a mortgage, and a majority of those have more than ten years until their loan is paid off.

Only 15% of homeowners 55+ have children over 18 living with them, and very few think it is likely children will move in with them over the next five years.

THE CHANGING BASIS OF CONSUMER STATUS

Trend Report notes that the basis of consumer status has shifted from affluence to self-realization. In effect, it's no longer about "what I have," but much more about "who I am: creative, connected, tasteful, smart, ethical." People want to demonstrate that they are ethically conscious, and one of the ways they can do that is to engage with brands that have what they consider to be the right values when it comes to social issues. An interesting example is Starbucks, who came under fire for briefly ordering baristas to write "Race Together" on cups; people viewed it as pushy and intrusive. However, in March Starbucks

partnered with Queens Community House to provide on-site training in retail and customer service to young people in New York's Jamaica Queens neighborhood. The community training program has proved so successful it's rolling out across 14 additional locations across the U.S.

RETAIL SHOPPING TRENDS

Chain Store Age reports that one of the most puzzling dilemmas facing retailers today is how to attract and appeal to millennials without alienating older customers. 58% of millennials find it easy to shop on mobile devices compared to just 30% of boomers. But Accenture research also shows that millennials exhibit less homogeneous behavior, most likely reflecting the wider variety of socioeconomic, educational and parenting trends that were in place while they were growing up. Millennials are more open to receiving advice than older peers. Retailers try to address this by personalizing messages for them; but older customers may find this type of communication to be "creepy" and "invasive." 58% of millennials think getting design advice based on their purchase patterns in-store would be "cool;" only about 25% of boomers agree. And the fact that 85% of millennials shop online can be deceiving; 30% of millennials expect to make more of their purchases in stores in the future compared to just 19% of boomers. Analysts speculate that it is second nature for millennials to do their shopping homework online, but then they may be more likely to go to the store and check things out in person. 54% of boomers would like to be able to check online to see if something they are interested in is in stock before going into the store; only 44% of millennials want that option. Millennials are more likely (55% to 30%) than boomers to use new fulfillment options like Instacart, which creates fulfillment and margin issues for retailers. Accenture senior managing director Jill Standish noted that as customer expectations around free shipping and free returns grow, retail margins get squeezed, which is creating a need for retailers to figure out how to manage growing fulfillment costs.

RETAILER LOYALTY PROGRAMS

Customers who belong to a retailer's loyalty program spend between 12% and 18% more than those who do not, based on an Accenture Interactive survey of U.S. retailers across several channels. The research company

noted that it was surprising that retailers generally evaluated the success of their loyalty programs by program growth rates and share of transactions by members rather than looking at the ROI of the program itself. Retailers say the biggest challenges they face are keeping up with the underlying technology and investing enough in technology (40%), keeping up with competing programs (33%) and managing the liability and complexity of the program (33%).

LOWER RETAIL PRICES IMPACT SUPPLIERS

The migration of shoppers to online has forced retailers to lower prices, and is squeezing factories and other intermediaries. Li & Fung, one of the world's largest factory middlemen, contracts with more than 15,000 factories globally to produce goods for Western retailers. Their CEO blamed a 50% drop in net income and 6.4% drop in revenue to weakness in the global economy and heavy discounting by retailers. However, the CEO of Connor Group, which sources \$2 billion in products annually, said that as more shoppers go online, demand is growing for unique private-label products, which creates opportunities for factories and middlemen. As shoppers switch online, brands are also placing smaller orders, which also cuts into middlemen profits.

SELF-SERVICE CHECKOUTS PROMOTE THEFT

The lack of human contact at self-service checkouts promotes theft, especially during the payment stage, according to a comprehensive study of retailer transaction in the United States, Great Britain and other European countries conducted by the University of Leicester. Loss includes both deliberate non-scanning and non-malicious loss through errors and items that customers accidentally miss while checking out. The study noted that the atmosphere of self-checkout can encourage theft because there is no human interaction during the checkout process. The benefits of self-checkout are numerous, and potentially could make shopping easier and quicker. The study of one million shopping trips found that 4% of the total value of purchases went unscanned.

CONSUMER VALUES AFFECT SHOPPING

A new study from financial services company Synchrony Financial showed that more than 40% of consumers surveyed prefer to shop at stores that reflect their personal values. Many retailers are tailoring marketing efforts to convey a lifestyle or experience rather than just sell products. Target's recent switch to featuring products in home-like settings and Lowe's move to creating seasonal displays that incorporate products from many different departments are examples of this philosophy in action.