What's even better news for the industry is that the factors that appear to be driving these results don't show any signs of abating in the near future.

The renewed buoyancy of the housing market is one of the main catalysts for the positive sales movement in home improvement retailing, and economists see these trends continuing in the near future.

According to Kermit Baker, senior research fellow with Harvard's Joint Center for Housing, all signs indicate the strength in the housing market will continue through 2017 with housing starts, remodeling expenditures and homeownership rates all poised for additional growth. (To read more from Baker, please turn to the article on Page 44.)

Added to the strength of the housing market is a renewed confidence among consumers that make them more likely to open their wallets to spend on home improvement projects. While multiple factors influence consumer confidence, two of the biggest determiners to consumer spending—employment and disposable income—are both predicted to remain strong in the coming months.

All of this has led to increased confidence among independent retailers. According to the NRHA research cited previously, 71 percent of survey respondents say they are predicting sales growth in 2017.

Many economists also agree with the positive outlook expressed by retailers in the NRHA survey, predicting that home improvement product sales should continue to outpace overall retail sales in 2017.

NRHA is predicting that 2017 will yield results very similar to what we are seeing this year, anticipating industry growth in the mid-5-percent range.

There are many factors that could influence this prediction in both positive and negative ways.

First, there is the ever-changing weather. Moderately inclement weather is usually a good thing for the industry, but over the past several years, we have seen both feast and famine—experiencing mild winters, wet springs, droughts and dry, hot summers. Unfortunately, there is no real way to accurately predict these cycles.

The next wild card is the results of this year's political activity, though the election season has ended and a new U.S. president has been selected. President-elect Donald Trump built his pre-election campaign around promises of massive change to the status quo. We don't yet know what the impacts on areas such as consumer confidence and the housing market will be if Trump follows through on his pledge for change.

NRHA and *H* take a large number of factors into account when determining overall sales estimates for the industry.

We use a formula that incorporates information from NRHA's annual *C* *D* *B*
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For more than 90 years, the North American Retail Hardware Association (NRHA) has been gathering financial and operational data from the industry's hardware stores, home centers and lumberyards to produce its annual

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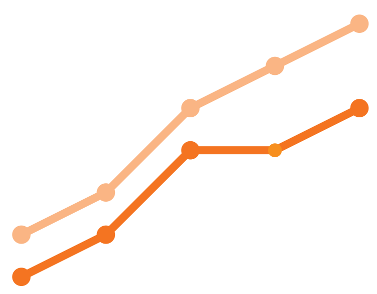
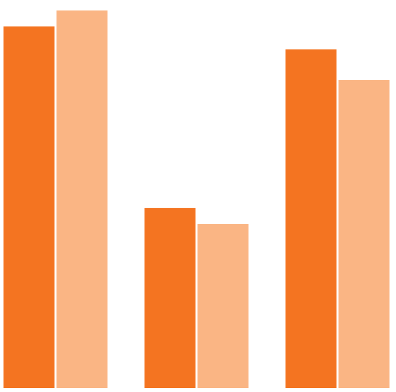
Median Sales Per Customer



Key Business Indicators



2016 Cost of Doing Business Study.

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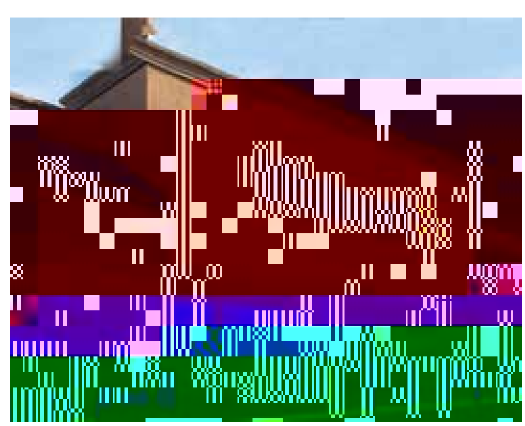

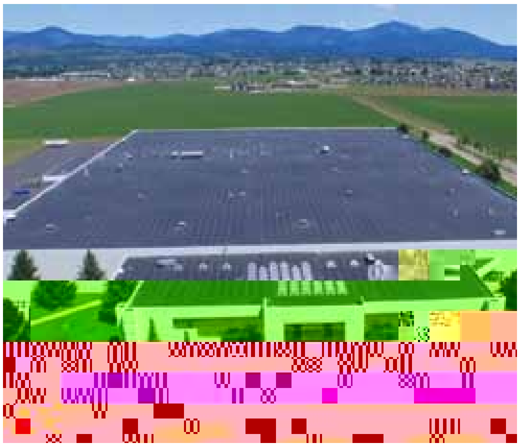

- Searching for ways to improve its business after reporting ongoing financial losses, decided to look at alternative approaches to selling its popular , and brands.
- On June 9, officially discontinued its ad-matching program at 500 store locations. In place of the program, the company launched "long-term price rollbacks" on products, sending customers to its app.
- filed a lawsuit saying and aren't making transactions as secure as they should and are working with banks to create chip debit and credit cards that are expensive for retailers to accept.

- . announced it surpassed $3 billion in total sales for its 2016 fiscal year. The numbers reflected a year of strong member growth and expansion supported by retail performance programs and new product introductions.
- A has become one of the top 10 biggest companies in the U.S., and is moving toward No. 1 in size, a report explains. The retailer has more areas with potential growth than other companies the same size or bigger, such as , and A .

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- . announced plans to expand its network of distribution facilities with the addition of an approximately half-million-square-foot distribution center located in Post Falls, Idaho.
- . announced it entered into a definitive agreement to acquire online retailer . for $3 billion in cash. The purchase highlighted Walmart's drive to boost its online business.

- A amassed its own delivery fleet of trucks and cargo planes, competing with companies that used to deliver millions of its boxes. The e-commerce retailer now owns 4,000 truck trailers and leases 40 jets.
- has returned to the paint business, looking for ways to help it compete with big-box stores such as ' and .

- ., merged with ., which is based out of Chicago and has more than 200 distribution centers across the country. The merger added 74 distributors and over $2 billion in volume to PRO Group.
- announced it was acquiring for about $5.5 billion. The companies are expected to close the deal during the first half of 2017.
- announced plans to test vertical farming in some U.S. stores in spring 2017, potentially allowing customers to see how green vegetables are grown and harvested indoors in carefully controlled conditions.

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The market for existing-home sales has been recovering. We are getting close to about 5 million at an annualized rate, which are the numbers we were seeing before the downturn. Recovery has been slow and steady, but it's picking up momentum, so that's a healthy sign. There had been quite a few homeowners who were underwater on their homes and couldn't sell, but we are now seeing fewer and fewer owners in that situation.

There's been more job growth, too. A homeowner may want to sell and move across the country for a new job, and now they can do that more easily than in the past few years. This segment of the market seems to be unfreezing pretty nicely.

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There are two types: multifamily homes and single-family homes. Multifamily came back from the recession a lot stronger, as there was more demand for rentals as we came out of the recession.

We've seen some reasonably healthy growth in single-family construction, too, but it's still well below where I'd say is the trend line for the market. It will continue to grow, though, I think.

There is constml

year of birth was 1990, and people tend to buy in their late 20s or early 30s, so those born in 1990 are moving into that buying stage. We might see higher rates of homeownership in the near future. The economy is improving and there are favorable demographics and a favorable housing market—these factors all could help the homeownership rate rise.

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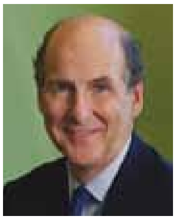
Quite frankly, I think it's doing pretty well. When you listen to economists talk about what might happen next year, one of the bright spots is the topic of ogè1.4

Where Is the Economy Growing?

A Q&A With Jack Kleinhenz



Jack Kleinhenz is chief economist for the National Retail Federation (NRF), the world's largest retail trade association. Formerly with the Federal Reserve Bank of Cleveland, Kleinhenz is a contributing forecaster to *J* , CNBC, Federal Reserve Bank of Chicago and the Federal Reserve Bank of Philadelphia.

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We're seeing a considerable strength in home improvement spending and that translated into spending at retail establishments.

From what we've seen, retail sales in the building materials area have been really steady. Housing has softened a little bit. From a retail standpoint, people have to outfit their homes. They're looking at supplies for repairs.

It looks like it's OK—just a bit of a softening in the last few months. It's hard to say. I think some of the home improvement activities that go on are part of a housing cycle and timing. Homes get sold earlier in the year, not in the fall.

We've seen strength in the retail side in building materials, and in the garden supply areas. It's been a very healthy pace since 2014, and it picked up in 2015 and then kind of started to tail off in 2016. I think it's a good trend that we're seeing. I expect that will continue.

Numbers can offset each other from month to month, but the overall trend is a healthy 6 percent, which is much stronger than overall retail sales.

2016 2017?

We saw a big uptick in consumer confidence at the end of September. Overall, there's elevated optimism about the economy. As we start looking at some of the indicators, certainly payroll growth has been good because, I think, as we get closer to full employment, there are fewer and fewer hires businesses are going to make.

My expectation for the gross domestic product (GDP) for the remainder of 2016 will probably be at a 2-percent growth rate, which is probably double what we saw in the first half of the year. So, going into the holidays, and hopefully with momentum pushing us into 2017, we'll see the consumer continue to be the driver.

And hopefully housing stays in a positive state of affairs and continues to help push the economy, because that's where we've been seeing the benefit of growth coming from—consumers and housing, and a limited amount of growth coming from the business sector. We might see more spending on equipment, but probably not on physical structures, per se, or a considerable amount of money in the nonresidential area. There just doesn't seem to be enough demand for it.

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The job growth, and some pickup in wages are propelling consumers. That gives our retailers an opportunity to actually see more spending, more dollars in their wallets.

2017?

I think we should see a continuation of the overall momentum we're seeing in the latter part of 2016, with a 2.2-percent growth rate. I'm thinking we're going to maintain that same pace in 2017. We aren't going to see a significant pickup in the economy. The throttle on our engine is just set around 2.2 percent or so.

I think the consumer, the household, can continue to drive the economy. The consumer represents close to 70 percent of the economy. I think employment will continue to grow, but at a decelerated rate.

The economy's getting closer and closer to full employment. As we get to full employment, will there be enough domestic or even international demand to lift up business? There's a lot of capacity still from a business standpoint, but we could see more business investment and production if we had increased demand. Most obviously, it would have

ECONOMIC OUTLOOK

to come from outside the United States. We're really dependent on the world economy. There's a lot of uncertainty.

We don't know what the new administration is going to do or what public policy will do in 2017. We still are at a point in the economy where we don't know where fiscal policy is going to come out.

Monetary policy for the Federal Reserve has done the heavy lifting for this economy. There's really no more room for them to do anything. That's why they're planning on normalizing interest rates, and that's why I'm expecting an interest rate increase in December. That could have a bit of an impact on consumers. That's a bit of an uncertainty.

I think businesses are not confident about their future, about whether they're going to have to pay larger or smaller taxes, what kind of programs might be there to stimulate or not. We just don't know. That's a big question, and it's going to have to get through Congress.

You don't know where interest rates are going to go, and you don't know if there are going to be challenges in terms of higher tax burdens.

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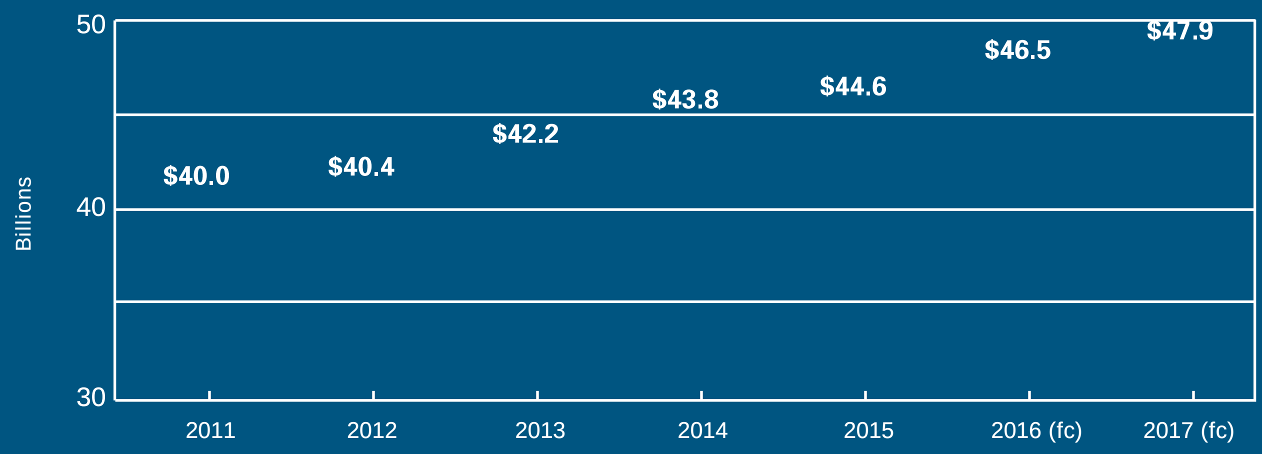
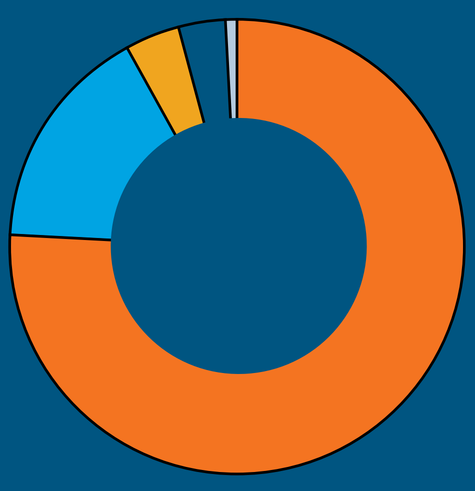
The key one for households is income growth. Wages and salaries. That's highly correlated. We're seeing some growth in use of consumer credit, which means that the consumers are confident they can repay whatever they're borrowing. They're in a better place than they were six months or a year ago, especially three years ago. Households are not over leveraged. The amount of debt that they are servicing is at 30-year lows. They have the income to spend, to borrow the money and pay it back on a regular basis. That's another positive indication that things are better and good for the future.

Home Improvement Industry Sales Growth in Billions



Big-Box Stores' Market Share



- **75.8%** Rest of the Market
- **16.1%** Home Depot Canada
- **4.0%** RONA*
- **3.4%** Lowe's Canada
- **0.6%** Kent*

** B -*

Top 10 Home Improvement Retailers

		2015
1	Home Depot Canada	$7,195
2	Lowe's Canada	$6,600
3	Home Hardware Stores	$5,865
4	Canadian Tire Retail	$5,435
5	TIMBER MART Group	$2,840
6	ILDC	$2,650
7	Sexton Group	$1,836
8	Castle	$1,875
9	Groupe BMR	$1,700
10	Kent Building Materials*	$769

**K ILDC,*

: 2015-2016 Home Improvement Retail Report, *H*