

Market Briefing

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Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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US ECONOMY

Exchange Rates October 30,2020

| | | |
|------------------------|------------------|-----------------------|
| Euro | 1 Euro = \$1.165 | \$1.00 = 0.858 Euros |
| Canadian Dollar | 1 CAD = \$0.750 | \$1.00 = 1.333 CAD |
| Japanese Yen | 1 Yen = \$0.009 | \$1.00 = 104.545 Yen |
| Chinese Yuan | 1 Yuan = \$0.147 | \$1.00 = 6.693 Yuan |
| Mexican Peso | 1 Peso = \$0.047 | \$1.00 = 21.279 Pesos |

Market Watch October 30,2020

| | | |
|--------------------|--------|-------|
| DOW | 26,502 | -4.6% |
| NASDAQ | 10,912 | -2.3% |
| S&P 500 | 3,270 | -2.8% |

Volatility returned to the markets in October as investors ignored strong quarterly results and focused on the lack of stimulus and further fiscal aid for businesses, the uncertain economic and political outlook and a surge of CV19 cases throughout the US and Europe. The DOW notched its worst monthly performance since March.

Consumer Spending Rises 1.4%

Consumer spending rose 1.4% in September after rising 1.0% in August and 1.9% in July. The increase in spending was more than expected. Consumers spent more on new motor vehicles, clothing, and whatever entertainment was available, including museums, sports centers, parks and theaters. In general, spending has shifted towards goods; since the economy is services driven, economists consider this an indication the recovery from the recession may take longer than anticipated. The savings rate slipped to a still-high 14.3% in September after peaking at a record 33.6% in April. Consumer spending accounts for 70% of US economic activity.

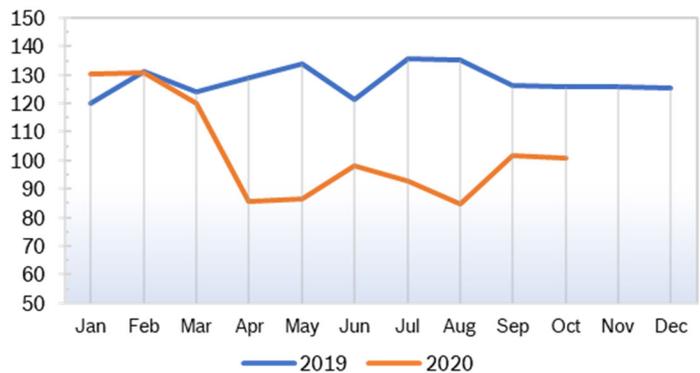
Consumer Prices Rise 0.2%

The Consumer Price Index (CPI) rose 0.2% in September after rising 0.4% in August and was up 1.4% year over year after being up 1.3% in August. Excluding the volatile food and energy components, core prices rose 0.2% after climbing 0.3% in Au-

gust. In the 12 months through September, the core PCE price index rose 1.4% after advancing 1.4% in August.

Consumer Confidence Falls to 100.9

Consumer Confidence Index

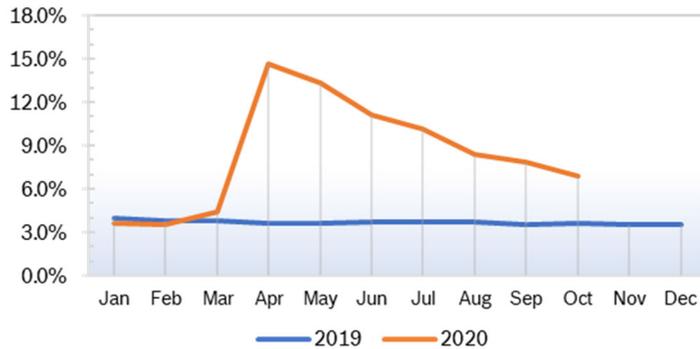


- ▶ The New York-based Conference Board’s Consumer Confidence Index fell slightly to 100.9 in October after jumping 15 points to 101.8 in September.*
- ▶ The Present Situation Index, which is based on consumers’ assessment of current business conditions, rose to 104.6 in October after dropping to 98.5 in September.
- ▶ Expectations dropped to 98.4 in October after rising sharply to 104.0 in September.
- ▶ Consumers were generally less optimistic in October as the number of coronavirus cases rose across the country and Congress failed to reach a deal on further stimulus benefits.

*A level of 90 indicates that the economy is on solid footing; 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.

Unemployment Falls to 6.9%

U.S. Unemployment Rates



- ▶ The unemployment rate dropped to 6.9% in October after falling to 7.9% in September and the economy regained 638,000 jobs after adding back 661,000 jobs in September*.
- ▶ The nation has recovered about 12 million, or 5%, of the 22 million jobs wiped out by the pandemic, and brought back many furloughed workers.
- ▶ Job gains were above expectations of 600,000 jobs, but economists say that recovering the rest could take several years.
- ▶ The unemployment rate has dropped from nearly 15% in April at the beginning of the pandemic and is now in line with unemployment rates seen in past major recessions.
- ▶ The number of Americans on temporary layoffs fell 36% from September, to 3.2 million people.

* The economy needs to create about 120,000 new jobs each month to keep up with growth in the working-age population.

Job Openings Drop in August

U.S. job openings declined in August for the first time in four months led by fewer openings in the construction and retail sectors, and fewer workers quit their jobs. Job openings, a measure of labor demand, fell by 204,000 to 6.49 million on the last day of August, according to the latest Job Openings and Labor Turnover Survey (JOLTS) from the US Bureau of Labor Statistics (BLS). Vacancies remain below their level of 7 million in February. The job openings rate fell to 4.4% from 4.6% in July. The number of people voluntarily quitting their jobs fell by 139,000 to 2.79 million. The number of hires, which includes rehired employees, improved slightly to 5.92 million, keeping the

hires rate at 4.2%. Federal government hiring jumped almost 250,000 during the month, largely because of efforts to conduct the 2020 census. Separations, which include layoffs and quits, dipped to 4.59 million in August, reflecting decreases in the number of job cuts as well as people voluntarily leaving their jobs. The number of quits declined to 2.79 million from 2.93 million a month earlier. The quits rate decreased to 2%, while the rate of layoffs and discharges dropped to 1% in August from 1.3%. JOLTS is a lagging indicator, but is closely watched by the Federal Reserve and factors into decisions about interest rates and other measures.

Chicago PMI Slips to 61.1

The Chicago Purchasing Managers Index (Chicago PMI) dropped slightly to 61.1 in October after jumping more than ten points to 62.4 in September but remained in positive territory for the fourth consecutive month after spending a full year below 50. However, New Orders was the only main index to post gains for the month, rising 0.2 points. All other indices declined, led by a 5.9 point drop in Production. Prices Paid was stable after jumping nearly ten points in September. Two special questions were asked in October. The first was whether respondents were planning to make working virtually a permanent option for employees. The answers revealed a high degree of uncertainty, with 45.8% being unsure, 35.6% saying no and 18.6% supporting working remotely. The second question asked if companies had reevaluated their supply chain hoping to take China out of their equation. While the majority, 47.4% had not, one third of respondents had adjusted supply chains. Looking back to when the series began in 1967, the PMI has ranged from 20.7 in June 1980 to 81.0 in November 1973.

Wholesale Prices Rise 0.4%

The Producer Price Index (PPI) rose 0.4% in September after rising 0.3% in August and 0.6% in July. In the 12 months through July the PPI rose 0.4%, the first positive year-over-year reading in six months. Excluding the volatile food, energy and trade services components, producer prices rose 0.4% in September and was up 0.7% year over year. The overall increase in the PPI was about twice what economists had expected, but was primarily driven by prices returning to normal as the economy reopened rather than a sustained increase in inflation. The wholesale cost of goods increased 0.4%, boosted by a 14.7% increase in the price of iron and scrap. Analysts noted that while pandemic-related price distortions are reversing, the trend in inflation is expected to remain subdued for some time.

Q3 GDP Soars 33.1%

GDP soared at a record annualized rate of 33.1% after plunging 31.4% in the second quarter, according to the first estimate from the Commerce Department. The big increase in GDP was widely anticipated and driven by a 40.7% increase in personal consumption expenditures, which reflects the reopening of the economy. Consumer spending on goods has been much stronger than spending on services, most likely because many services involve close personal contact. Nevertheless, personal spending on services rose a solid 38.4% in Q3 after plummeting 41.8% in Q2. Other areas of strength included business spending on equipment, which jumped 70.1% and easily offset the 35.9% drop in the second quarter. Residential construction soared 59.3%, but nonresidential construction spending fell 14.6%, the fourth consecutive quarterly decline for this spending component. Growth in the fourth quarter is expected to slow sharply, with analysts predicting that GDP will grow at an annualized rate around 6%, assuming that severe CV19 restrictions are not put back in place. Analysts remain concerned that a full business recovery could take longer as the virus resurges and many business sectors remain under pressure.

HOUSING & CONSTRUCTION

Builder Confidence Rises to 85

Builder confidence rose two points to 85 in October after rising to 83 in September, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). It was the first time the index has been above 80 for two consecutive months and the sixth consecutive monthly increase. All the HMI indices posted or matched their highest readings ever in October. The HMI index gauging current sales conditions rose two points to 90, the component measuring sales expectations in the next six months increased three points to 88 and the measure charting traffic of prospective buyers held steady at 74. **Regional scores all rose for the fifth consecutive month.** Any number over 50 indicates that more builders view the component as good than do as poor.

Building Permits Rise 5.2%

Building permits rose 5.2% in September to a seasonally adjusted annual rate of 1.55 million units after falling to 1.47

million units in August. Single-family permits increased 7.8% to a 1.12 million rate after rising to a 1.04 million rate in August. Multifamily permits dropped 0.9% to a 434,000 unit rate. On a year-to-date regional basis, permits were mixed.

Housing Starts Rise 1.9%

Housing starts rose 1.9% in September to a seasonally adjusted annual rate of 1.42 million units after falling to downwardly revised number in August. **Single-family starts rose 8.5%** to a seasonally adjusted annual rate of 1.1 million units after rising 4.1% to 1.02 million units in August. It was the highest pace of single-family starts since 2007. Limited supplies of building materials are keeping starts from being even higher. Multifamily starts dropped 16.3% to 307,000 units after dropping sharply in August. Regional starts were mixed year to date compared to 2019.

New-Home Sales Fall 3.5%

New-home sales fell 3.5% in September to a seasonally adjusted annual pace of 959,000 from a downwardly revised number in August. Sales were up 32.1% from September 2019. Year-to-date new-home sales are up 16.9%. Inventory rose to a 3.6 months' supply from 3.3 months in August, with 248,000 new single-family homes for sale, 32.1% below the supply in September 2019. Just 48,000 homes were completed and ready to occupy. The median sales price rose to \$326,800 from \$312,800 in August and \$315,700 a year ago. NAHB noted that while demand was strong, increases in the price of lumber and other materials are driving up prices. **New home sales rose in all four regions.** 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 Rise 9.4%

Existing home sales rose 9.4% in September to a seasonally adjusted annual rate of 6.54 million in September after rising to 6.0 million in August. Existing home sales were up 20.9% from September 2019. The median existing-home price for all housing types in September was \$311,800, up 14.8% from September 2019, as prices rose in every region. September's national price increase marks 103 straight months of year-over-year gains. Total housing inventory at the end of September was 1.47 million units, down 1.3% from August and down 19.2%

from September 2019. Unsold inventory was at a 2.7-month supply at the current sales pace, down from 3.0 months in August and down from a 4.0-month supply in September 2019. Properties are moving very quickly; 70% of homes were on the market for less than a month. For the fourth consecutive month, sales rose month over month and year over year in every region. Sales in vacation destination counties have been accelerating since July, with a 34% year-over-year gain in September.

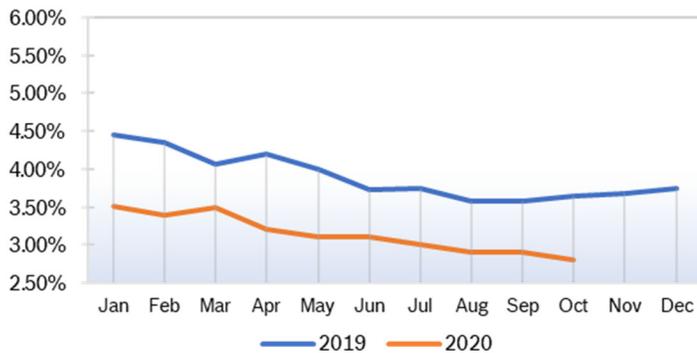
Regional Housing Data

| | Northeast | South | Midwest | West |
|----------------------|-----------|---------|---------|---------|
| Builder Confidence* | 82 (+6) | 82 (+3) | 75 (+3) | 90 (+5) |
| Building Permits YTD | -4.1% | +6.4% | +4.5% | +0.5% |
| Housing Starts Y/Y | -1.4% | +5.7% | +11.0% | +4.5% |
| New Home Sales | +22.5% | +14.4% | +25.9% | +18.0% |
| Existing Home Sales* | +16.8% | +8.5% | +7.1% | +9.6% |

* Year over Year

Mortgage Rates Slip to 2.8%

30-Year Fixed-Rate Mortgage



- ▶ A 30-year fixed-rate mortgage (FRM) fell slightly to 2.8% at the end of October from 2.9% at the end of September. Mortgage rates were at 3.8% at the end of October 2019.
- ▶ Freddie Mac notes that historic low rates are fueling housing demand and expects rates to remain low through the remainder of the year, although falling inventory and higher home prices could stifle demand.

POWER TOOL INDUSTRY

Stanley Black & Decker

Q3 sales rose 6% to \$3.9 billion, with volume up 3%, acquisitions up 2% and price up 1% contributing to the growth. Operating margins rose to 17.7%.

Tools & Storage net sales increased 11% versus Q3 2019 with volume up 10% and price up 1%. Organic revenues across all regions were positive, as consumers continue to focus on their homes and ecommerce sales were strong.

Q3 Conference Call:

North America Tools & Storage sales were up 11% organically. US retail delivered 16% organic growth, driven by strong DIY performance and improving demand from Pros, along with robust ecommerce sales.

Approximately \$100 to \$125M of promotional shipments in Tools & Storage shifted into October from September, negatively impacting the segment for the quarter by 4 to 5 points.

Exceptionally strong point-of-sale (POS) demand in US retail continued through the end of the third quarter; retailer inventory levels improved only marginally.

Overall the Tools & Storage segment profit rate, excluding charges, was a record 21.5%, up 490 basis points versus Q3 2019, with volume, productivity, cost control and price all contributing.

Power tools and equipment delivered 22% organic growth, benefiting from strong execution and new product introductions. Craftsman is growing ahead of expectations and getting close to their annual goal of \$1 billion in revenue.

DeWalt is benefiting from the recovery of the Pro business and new product introductions including Power Direct, as well as expansion of FlexVolt, Atomic and Xtreme.

They expect Tools & Storage to grow 8% to 10% organically in the fourth quarter and expect overall organic revenue

growth between 3% and 5%. October numbers will be very strong because of the sales that were pushed into the month.

POS in North American retail has remained strong. Demand has dropped somewhat from very strong levels in Q2 but POS growth has been in the low 20s for the last eight weeks of the quarter.

They took \$1 billion out of costs, including \$0.5 billion of indirect or non-people related costs. They believe about \$625 million of that \$1 billion will stick, resulting in carryover benefits next year that will yield \$100 to \$150 million of additional margin tailwind.

They believe tools and outdoor will be very strong in 2021, and the segments that are down significantly this year, industrial, security and industrial tools, will bounce back. They also believe pandemic demand will continue through at least the first half of 2021. They are basing projections on their belief that the global economy will not be severely pressured in 2021.

Ecommerce sales will approach \$2 billion in 2020. Ecommerce represented 18% of global Tools & Storage revenue for the third quarter. They will continue to make targeted investments to bring in world class talent and continue to expand their market share in ecommerce. Their ecommerce business has grown from virtually non-existent in 2010 to nearly \$2 billion in 2020. They have a vast network of ecommerce partners around the world, including Amazon and Alibaba. SB&D ecommerce sales are all business-to-business rather than direct to the consumer, which works well for them. Their competitors have not focused on ecommerce which has given them even more opportunity.

The Black & Decker brand resonates very well with the younger generation, which will form the core of ecommerce growth in the future.

The pandemic is not over, and they are not letting their guard down. They are committed to serving customers and keeping employees safe.

They believe MTD will bring between \$2 billion and \$3 billion in revenue beginning in July 2021.

They are also working on items that mesh well with the new

emphasis on security and safety such as automated entries with facility threshold controls, contact and proximity tracing and touchless doors for commercial establishments.

Keeping up with inventory replenishment right now is a real challenge because of very strong POS; both they and their customers would like about four weeks of inventory, but that is very challenging now. They need to solve that in the first quarter.

Other News:

SB&D launched its third annual Maker Month in October, an annual celebration of the makers, creators and tradespeople shaping the world. The month-long campaign will focus on the trade skills gap, which was described as one of the greatest challenges facing the workforce today. According to World Economic Forum, there are an estimated 10 million global manufacturing jobs currently unfilled due to the skills gap. Generation T estimates that by 2028, 3 million jobs in the skilled trades will be open in the US. SB&D will be using social media to spotlight a diverse range of makers and creators, showcasing one individual each day of the month and then featuring all 31 on their website. In addition, the company has established two scholarship programs to support future trades professionals, one for DeWalt and one for Stanley Security.

SB&D received the 2020 Reuters Responsible Business Award, which honors leadership in sustainable business. SB&D won in the Business Transformation category, which recognizes companies that are embracing innovating opportunities to address social and environmental challenges and develop sustainable business models for the future.

SB&D used their Techstar partnership with Dynamic Green Products (DGP) to launch a line of FDA-approved hand sanitizer gels. SB&D will be selling the plant-based sanitizer gel online at homedepot.com as well as through other retail outlets. The gel uses a proprietary plant-based thickener and 72% ethyl alcohol. SB&D will also distribute the hand sanitizer in each of their facilities around the globe and donate \$100,000 worth of sanitizer to those in critical need at senior living facilities. In addition, the Craftsman team, which is building a new manufacturing facility in Fort Worth, Texas, will provide hand sanitizer to food banks across the state.

TTI/Techtronic Industries

TTI and discount retailer Harbor Freight Tools are battling it out in federal court over allegations of stolen trade secrets, patents and laborers. TTI alleges that Harbor Freight, which is also based in Anderson County, South Carolina, began luring away TTI's top employees in January as part of an effort to expand into tool production. TTI claims that a wave of engineers, researchers and lab directors started resigning without notice and took thousands of pages of blue prints, confidential documents and sales and supply chain secrets with them. Harbor Freight denies any wrongdoing and contends that the non-compete clauses in TTI's employee agreements are illegal. TTI employs about 500 people at the Anderson site.

TTI has stepped up efforts to find Vietnamese suppliers for their project underway in the Saigon Hi-Tech Park (SHTP) HCMC. According to *Saigon Times Weekly*, they are looking for up to 200 local suppliers for this \$650 million project.

Trimble

Trimble is selling their construction logistics business to Birmingham, Alabama Construction technology company Command Alkon. Command Alkon will combine Trimble's construction logistics telematics offerings with their fleet and workforce management products and services for heavy construction. Trimble's construction logistics solutions provide ready-mix and aggregates delivery managers with tools to track, schedule, route and communicate across their fleet.

Trimble has formed an alliance with robotics firm Boston Dynamics (BD) to market of version of BD's Spot dog-like robot geared toward construction. The robot will include a variety of Trimble's sensors that automate tasks such as site scans, surveying and progress monitoring in potentially unsafe environments. The robot can also mount 3-D cameras and laser scanners or other materials weighing up to 30 pounds.

RETAIL

Retail Sales Rise 1.9%

Retail sales rose 1.9% in September after rising 0.6% in August and were up 5.4% from September 2019. It was the fifth consecutive monthly increase in retail sales. Sales were well

ahead of expectations and rose in every major category except for electronic and appliance stores. Core retail sales, which exclude automobiles, gasoline and sales at building and supply stores and factor into calculations for GDP, rose 1.4% in September after falling a downwardly revised 0.3% in August. Building and supply store sales rose 0.6% and online retail and catalog sales were up 0.5%.

The Home Depot

THD introduced a new educational video series, Virtual Field Trips, which will be available in their digital DIY workshops library. Home Depot suppliers will provide kid-friendly, behind-the-scenes tours and insights into how products come to life and eventually make it to the retailer's shelves. The Virtual Field Trips provide fun, exclusive tours, curated specifically for young doers. From plant genetics to supply chain, THD has broken down the process into creative, interactive, digestible videos with accompanying DIY projects that THD believes will bring the excitement of a traditional field trip to the pandemic virtual world many families are now living in. Virtual Field Trips and hundreds of family-friendly projects, from creating a cardboard box playhouse to making a solar oven, along with many resources for kids can be found at www.homedepot.com/kids.

THD will expand their partnership with Discovery Education in spring 2021 to bring more digital resources and projects to their Science Fair Central platform. Originally launched in 2017, Science Fair Central has provided more than two million educators and students with STEM project starters, information on scientific processes, material checklists and more. Discovery Education is the global leader in standards-aligned digital curriculum resources, engaging content and professional learning for K-12 classrooms. THD first launched monthly workshops for kids more than 20 years ago.

THD swiftly cut ties with long-time advertising agency Richards Group after founder Stan Richards described a proposed ad campaign for Motel 6 as "too black." Motel 6, Keurig and Dr. Pepper also fired the agency because of the comments. While Stan Richards, age 87, turned over the reins of the company to Glenn Dady last year, he remained involved in the business and blamed himself for making a huge mistake, even though the meeting was internal and the comments were not intended for the general public. No word yet on who THD will select to replace Richards Group, which is widely viewed as a highly strategic and effective agency.

Lowe's

Lowe's will give hourly employees an additional \$100 million in discretionary bonuses as Lowe's heads into the busy holiday season. Full-time staff will receive \$300; part-time and seasonal employees will receive \$150. This latest round will bring the company's total bonuses during the pandemic to more than \$775 million.

Lowe's has mapped out a strategy for the holidays that aims to cut down on the shopping rush that typically surrounds Black Friday. They will focus on the home as a key theme, and hope to give new meaning to the phrase "home for the holidays."

Lowe's will offer an expanded selection of products for the holidays, including tools and many other traditional home center products. Lowe's will also offer many new products designed to take advantage of consumers' pandemic-driven focus on home, such as small kitchen appliances, home décor, outdoor playsets, backyard movie players and battery-operated ride-on toys. They began offering free local delivery of fresh Christmas trees the end of October. Lowe's will also offer free local delivery of decorative items, including fresh-cut wreaths and tree containers with a purchase over \$45.

Lowe's is dedicating November to Pros, calling it "PROvember" and offering Pros special deals and the chance to win a 2021 Chevy Silverado packed with more than \$3,000 worth of DeWalt tools.

Lowe's is targeting professionals with new services and initiatives, including a partnership with Stream for a free augmented reality video chat service called JobSight that allows professionals to meet with clients virtually, a feature that is particularly suited to doing business during a pandemic. Retail analysts believe there is room in the fragmented marketplace for Lowe's to gain share with professionals.

Walmart

Walmart is redesigning their stores so that the layout mimics the Walmart app, making it easier for shoppers to find what they are looking for. The redesign will roll out to 200 US stores by the end of the year and 1,000 more by the end of 2021. Shoppers will reportedly notice that Walmart's departments are being more clearly organized and will have new larger signs.

The redesign process actually began pre-pandemic, but features that people have gotten used to have been integrated, including contactless payments. The redesign was inspired by customer feedback and may be further tweaked depending on how shoppers respond.

W.W. Grainger

Q3 sales rose 2.4% to \$3.0 billion and organic daily sales rose 4.6%, driven by significant share gains in the US segment and strong growth in the endless assortment businesses which more than offset declines in Canada. US segment sales were up 3.1%, outperforming the MRO market, which declined an estimated 5% to 6%. This increase was driven largely by higher volumes of pandemic-related products, partially offset by year-over-year decreases in non-pandemic product sales. The declines in non-pandemic product sales continued to moderate, while growth in pandemic product sales remained elevated, but began to ease from the levels experienced earlier in the year. There was no material impact from foreign exchange rates during the 2020 third quarter and the third quarter of 2019 and 2020 had the same number of selling days.

Amazon

Q3 sales rose 33.7% year over year to \$96.1 billion, handily beating expectations. Excluding the \$691 million favorable impact from year-over-year changes in foreign exchange rates throughout the quarter, net sales increased 36% compared with third quarter 2019. Amazon also raised their guidance for Q4 and now expects revenue between \$112 and \$121 billion.

Sales grew for all Amazon segments except physical stores. Sales at online stores, which includes products Amazon sells directly to consumers on their website, grew 38%. Amazon's sales from third-party sellers rose 55%. Revenue from Amazon Web Services, their cloud computing business and Amazon's largest profit driver, grew 29%, and Amazon's advertising business grew 51%. Meanwhile, Amazon's sales at physical stores, including Whole Foods, dropped 10%.

More than 320,000 people attended Amazon's Career Day, a virtual event that provided insights, tips, and advice to job seekers on how to build their career and apply for more than 130,000 corporate, technology, and operations positions available at Amazon in North America. Amazon received a record

384,000 applications for roles in Canada and the US within a week of announcing the event.

Amazon CEO Jeff Bezos said that the company's decision to raise the minimum wage to \$15 per hour two years ago and the investments they have made around the world in recruiting and training have helped them successfully manage the unprecedented increase in sales that has been driven by consumers' overall migration to shopping online.

Amazon announced plans to add more than 3,000 new schools to Amazon Future Engineer, a four-part program that funds high-quality, age-appropriate computer science curriculum for students and professional development for teachers. With the addition of these new schools, Amazon Future Engineer will expand to reach over 550,000 K-12 students across more than 5,000 elementary, middle, and high schools in underserved communities.

Amazon avoided calling Prime Days in mid-October their biggest sales days ever, but said that the independent sellers on their platform had nearly 60% better sales than last year. With Prime Day moved from July to October, it provided an unofficial early start to the holiday shopping season. Unofficial estimates place sales at close to \$10 billion, even with Amazon India holding their own Prime Day celebration earlier. Numerator data shows that the average order was \$44.21, down from \$59.02 in 2019, and the average shopping cart held 1.6 items. About 29% bought holiday gifts, with about a quarter of those shoppers saying they did at least half of their holiday shopping. Only 52% bought something that was part of a Prime Day deal, and 21% of Prime Day shoppers also bought something from another retailer. The most popular items were Amazon tech items: The Echo Dot smart speaker, Amazon Smart Plug, Fire TV Stick, Echo Show and new or reloaded gift cards. Household essentials, health and beauty, toys and video games and home and garden were other popular categories that each saw a purchase by at least 1 in 5 shoppers.

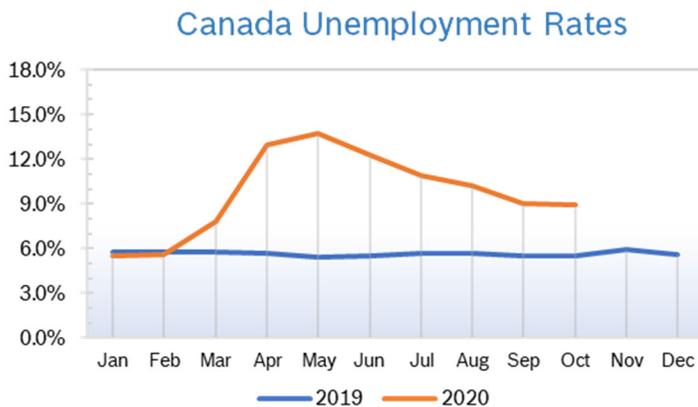
Amazon is adding 100,000 seasonal jobs across the US and Canada for the busy holiday shopping season. In addition, Amazon hired 100,000 people in September and added 33,000 employees focused on corporate and tech roles.

Amazon's corporate office may not return to pre-pandemic staffing levels until the middle of 2021. Some managers have told their teams they can continue to work from home until

July or August 2021, according to the *Washington Business Journal*. In July, Amazon said that employees who are able to telework should continue doing so until January 8, 2021. An Amazon spokesperson said the official back-to-work date has not changed, but individual managers have the leeway to make different accommodations for their staff. Alphabet's Google has already announced July as their return to the office date, with Microsoft, Uber and Airbnb making similar statements. Despite the work from home trend, Amazon is adding about 900,000 square feet of office space across six cities. They also purchased the Residence Inn next to HQ2 so they can demolish it and expand the footprint.

CANADA SNAPSHOT

Unemployment Drops to 8.9%



- ▶ The unemployment rate was 8.9%, little changed from September. Employment increased by 84,000 (+0.5%) in October, after growing by an average of 2.7% per month since May.
- ▶ Most of the job gains in October were full-time jobs. Full-time employment is down 3.1% year over year.
- ▶ Employment increased in five provinces: Ontario, British Columbia, Alberta, Newfoundland and Labrador and Prince Edward Island.
- ▶ In construction, employment was little changed for the third consecutive month in October, following increases totaling 190,000 (+16.2%) from April to July. Employment in construction in October was 7.5% (-112,000) below its February level.
- ▶ During the 2008/2009 recession, the unemployment rate rose from 6.2% in October 2008 to a peak of 8.7% in June 2009. It took approximately nine years before it returned to its pre-recession rate.
- ▶ Employment continued to rise at a faster rate in the service sector than in the goods-producing sector.
- ▶ CV19 restriction have been reinstated in many regions of central Canada and will likely affect job growth in November.

Consumer Confidence Drops to 74.1

The Index of Consumer Confidence fell 9.5 points in October to 74.1 after rising to 83.6 in September, according to the Conference Board of Canada. Consumer confidence deteriorated in October as restrictions tightened amid the second wave of CV19. It was the largest monthly drop for the index since April. Concerns over future job prospects were the main drivers of the plunge. Compared with its peak, reached in February (120.6), the index is now 46.5 points below its pre-pandemic level. 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 0.5%

The Consumer Price Index (CPI) rose 0.5% on a year-over-year basis in September after rising 0.1% in August. Economists had expected prices to increase 0.4%. Excluding gasoline, the consumer price index rose 1.0% in September after rising 0.6% in August. On a seasonally adjusted monthly basis the CPI rose 0.1% in September. Prices rose year over year for six of the eight major components but did not follow typical seasonal patterns, which have been affected by CV19. Regionally, prices rose in seven provinces. Despite the increase, economists expect inflation to remain below the Bank of Canada's (BoC's) target of 2%. Economists noted that despite the rebound, prices have a long way to go to recover. For the year, the Conference Board now expects consumer prices to rise just 1.1%.

GDP Grows 1.2% in August

GDP grew 1.2% in August after growing 3.1% in July, according to Statistics Canada. Growth was ahead of economic forecasts. The fourth consecutive monthly gain left the Canadian economy just 5% below February's pre-pandemic level. Both goods-producing (+0.5%) and services-producing (+1.5%) industries were up; 15 of 20 industrial sectors posted increases and two were essentially unchanged in August. The construction sector rose 1.5% in August, up for the fourth consecutive month, as the majority of subsectors increased, bringing sector activity to within 2% of February's pre-pandemic level. Residential construction grew 1.8% in August, surpassing the pre-pandemic level of activity as all types of residential construction were up. Both engineering and other construction (+2.7%) and repair construction (+1.5%) also grew, while non-

residential construction contracted 1.7% with all components down. Both wholesale trade and retail trade rose by 0.4% in August, and were slightly above the pre-pandemic levels of activity, as subsectors in each of the sectors were evenly split between increases and decreases. Statistics Canada expects growth to slow in September, with the economy growing just 0.7%.

Interest Rates Hold Steady

After holding rates at 0.25% in October, the Bank of Canada (BoC) acknowledged that the pandemic will most likely have a “more-pronounced” near term impact on the recovery. The central bank pledged not to raise rates until inflation is sustainably at 2%, and is shifting its major asset purchase program towards longer-term bonds, which have more direct influence on the borrowing rates that are most important for households and businesses. Analysts noted that the BoC has not achieved its inflation target in 10 years. Lower rates help drive down rates of mortgages and loans and make it easier for people to borrow and spend, which aids the recovery.

Housing and Construction News

The annual pace of housing starts dropped 20% in September to a seasonally adjusted annual rate of 208,980 units, well below expectations of 240,000 starts. The decrease was driven by weakness in Ontario and British Columbia and lower starts in condos. The six-month moving average rose slightly in September. Canada Mortgage and Housing Corp. (CMHC) expects starts to trend lower by the end of the year as a result of the negative impact of CV19 on economic and housing indicators. Moving forward, they expect housing starts to remain elevated through next year, as issuance of permits has remained strong and mortgage rates are low.

Canada’s home sales continued to climb in September, rising 0.9% on a seasonally adjusted basis and up 45.6% compared to September 2019. It was the fifth consecutive month home sales have risen. Sales were up 1.7% from July and 9.4% from August 2019. The Canadian Real Estate Association (CREA) noted it was the third consecutive month that home resales and the price index have both hit record highs. The national average home price rose 17.5% to a record \$604,000 in September. Excluding sales in the pricey Greater Vancouver and Greater Toronto areas, the national average price was about \$479,000.

Low Rates Motivate Young Buyers

Younger Canadians say the pandemic has accelerated their plans to purchase a home or investment property, although about one-third of respondents said they were waiting for prices to drop before buying a home, according to the Scotiabank 2020 Housing Poll. More Albertans (39%) than other Canadians (25%) believe that prices will come down over the next 12 months. Members of the key home-buying segment aged 25 to 34 are the most optimistic, with 36% of respondents believing prices will fall. Overall, 38% of Canadians believe now is a good time to buy. More than 70% of renters say they have no plans to buy a new home in the next year or two, despite low interest rates. In addition, 26% of respondents are seriously considering a renovation to their current home, a response that was attributed to the fact that during the pandemic more people are spending much more time at home.

Retail Sales Rise 0.4%

Retail sales rose 0.4% in August to \$53.2 billion after rising to \$52.9 billion in July. It was the slowest pace of increase since the economy began recovering, and most likely a sign that pent-up demand has been largely satisfied. While it was the fourth consecutive monthly increase in retail sales, it fell short of the 1.1% gain forecast by Statistics Canada. Nevertheless, total sales in August were 1.8% higher than pre-pandemic sales in February and 3.5% ahead of August 2019. Sales at building material and garden supply stores rose 4.5%, a sign that Canadians are still investing in home renovations. Recovery has been very challenging for some sectors, especially apparel; with more people working out of home offices and children going to virtual school there is less need for attire. One economist noted that while sales surprised to the downside, consumers might be reallocating budgets towards services, including restaurants dining and bars. Note: Canadian retail sales do not include spending on food services.

Retail Ecommerce Sales

Retail ecommerce sales rose 60.6% year over year, accounting for 5.0% of total retail trade. When adjusted for basic seasonal effects, retail ecommerce was down 2.0% in August. The share of ecommerce sales as a percentage of total retail sales edged up from July despite more retailers expanding in-person shopping in accordance with public health measures. The share of retail ecommerce sales as a portion of total retail trade in August was up 1.8% year over year.

MARKET TRENDS

Recovery at Crossroads

The recovery from the COVID-19 recession is at a crossroads as government money runs out and companies continue to layoff workers. New coronavirus cases are surging across the country, which could lead to restrictions on businesses like restaurants, gyms and bars, and undercut consumer spending and further reduce holiday plans and travel. Economists have attributed the strength in retail sales to fiscal stimulus, especially a weekly subsidy paid to tens of millions of unemployed Americans. September's robust sales reinforced expectations for record consumer spending and economic growth in the third quarter. However, many holiday forecasters are holding off on projections, and Amazon's big two-day Prime event was not described as "the biggest sales event ever," as it has been for the previous three Prime Days. According to data from Placer.ai, while many brick and mortar retailers saw increased traffic, Prime Days did not produce as big of a bump as usual. Analysts think year-over-year growth was basically flat after 8% growth last year.

Holiday Shopping in a Pandemic

Retailers are adopting a wide range of protocols to minimize in-store crowds without sacrificing holiday sales. The combination of an unprecedented season for ecommerce, far fewer people planning to travel or gather together for the holidays has caused shippers to warn that we could be headed for "Shipageddon" if people wait until the last minute to shop, with logistics systems being overwhelmed and unable to deliver packages in time for Christmas. Many retailers and shippers are asking people to have holiday shopping done before Thanksgiving. The media has picked up on Buy Online Pick Up in Store, and now touts "BOPUS" as a big benefit for consumers. Many retailers are offering curbside pickup and contactless checkout and have scrapped traditions like Thanksgiving openings and Black Friday doorbusters. Target may institute a reservation to shop system that guarantees people won't have to wait outside in the cold.

Holiday Ecommerce Sales

Emarketer is projecting a major shift to ecommerce this

holiday season, and predicts US consumers will spend \$190.47 billion this year online on holiday purchases, up 35.8%, and up \$50 billion in sales versus 2019. They expect ecommerce to more than make up for a 4.7% expected decline in in-store sales over the holiday season, which they define as November and December. Shoppers are expected to rely more on ecommerce and try to minimize their in-person shopping trips, which may favor big-box retailers that sell a wide variety of merchandise and offer curbside pickup. The Cyber Big Five, Thanksgiving Day through Cyber Monday, will continue gaining share of the total holiday ecommerce pie, rising slightly this year to capture 20.5%. Emarketer forecasts that Cyber Five ecommerce sales in the US will bring in \$39.10 billion in 2020, up 39.6% from 2019.

Consumer Holiday Shopping Survey

Amazon was the number one choice for holiday shopping by 61% of respondents, according to the fourth annual shopping study Convey A, followed by Walmart, Target and Best Buy, where 16% plan to shop for gifts. Beyond Amazon, eight of 10 respondents plan to do most of their holiday shopping online, with 30% planning to do it all online. And even though the trend lately has been to faster and faster delivery, nine out of ten shoppers were willing to give retailers extra time, with 74% willing to wait one to four extra days. The top three most important delivery services are free two-day shipping (44%), free shipping on returns (18%) and the ability to track packages en route (14%). The majority of respondents (58%) say that they are more likely to complete a purchase if the estimated delivery date is visible prior to starting to checkout. The top three concerns were late packages (42%), porch pirates (17%) and high shipping costs (16%). About 40% say they'll start shopping earlier this year and two-thirds say its important to support local retailers who have been impacted by CV19.

Ecommerce Post-Pandemic

According to McKinsey, trends in China suggest that between three and six percentage points of market share gained by online channels during the pandemic will be "sticky." The longer the pandemic drags on and impacts shopping behavior, the more likely it is that consumers will stick to their new habits. Google's president of ecommerce, Bill Ready, said that they are seeing a much broader cross-section of retailers that now see ecommerce as a top priority. Google has also

accelerated their own ecommerce plans, and is now allowing retailers in Europe, the Middle East and Africa to list products on Google shopping tabs for free, after doing the same earlier this year in the US. Companies from Amazon and Walmart to The Home Depot and Lowe's have overhauled supply chains and invested in the systems necessary to make ecommerce run smoothly and integrate with brick and mortar operations. Ecommerce has grown from a relatively small part of many retail operations to as much as 30% to 40% of business.

Global GDP

It may take until at least 2022 for global GDP to return to pre-pandemic levels, according to the latest analysis from the International Monetary Fund (IMF). The IMF noted that there are some regions of the world, including Latin America, where recovery will take longer, perhaps through 2023. According to the IMF, the unprecedented policy response to the pandemic worldwide has helped contain global financial stability risks in the near term. However, the recovery remains vulnerable to a new virus outbreak, policy missteps or other shocks that could impact economies and derail the recovery.

Palm Reading

Amazon has introduced palm recognition technology in two Seattle stores and believes there is much broader potential use for this technology, including stadiums, offices and other gated or secured locations. Customers at the stores near Amazon's campus in Seattle can use their palm for entry into secured areas and to buy goods. Amazon says the technology is more private and purposeful than other biometric technologies and it's contactless. Palm images are not stored on devices and data is encrypted. Amazon plans to offer the service to others who can benefit.

America's Most Patriotic Brands

Jeep, Walmart and Amazon lead the list of the top 50 most patriotic brands. Jeep has topped the list every single year of the Brand Keys survey, which is now in its 18th year. Walmart ranked number six and Amazon came in at number 10. More than a quarter of the top 50 are new to the list this year, including pandemic favorites Clorox, Purell, Netflix, Zoom and Dominoes.