BOSCH

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Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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US ECONOMY

Exchange Rates September 28, 2018

Euro	1 Euro = $1.163	$1.00 = 0.860 Euros
Canadian Dollar	1 CAD = $0.774	$1.00 = 1.292 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 113.460 Yen
Chinese Yuan	1 Yuan = $0.145	$1.00 = 6.870 Yuan
Mexican Peso	1 Peso = $0.053	$1.00 = 18.707 Pesos

Market Watch September 28, 2018

DOW	26,458	1.9%
NASDAQ	8,046	-0.8%
S&P 500	2,914	0.4%

The major indexes turned in mix results for the month of September but finished out the third quarter with gains, with the S&P rising 7.2% and posting the best quarter since 2013. The NASDAQ gained 7.1% for the quarter and the DOW rose 9.3%. In September markets were tempered by worries about trade deals as investors try to assess how protectionist policies could impact the global economy and corporate profits.

Consumer Confidence Rises to 138.4

The New York-based Conference Board's Consumer Confidence Index rose to 138.4 in September after rising to an upwardly revised 134.7 in August, according to the Conference Board's latest survey. It was the highest level of confidence since October 2000, and close to the index' all-time high of 144.7 reached in October 2000. Analysts noted that to put that in perspective, confidence is lower than September's reading 98% of the time. Consumers' assessment of the current situation improved slightly and expectations for the future soared. The Present Situation Index rose to 173.1 after rising to an upwardly revised 172.8 and the Expectations Index jumped to 115.3 after rising to an upwardly revised 109.3. High levels of confidence should continue to support healthy levels of consumer spending. Economists note that a level of 90 indicates that the economy is on solid footing and a level of 100 or more indicates growth. Analysts caution that the real driver behind consumer spending is income growth and that labor market trends are a more accurate predictor of consumer behavior.

Consumer Spending Rises 0.3%

Consumer spending rose 0.3% in August after rising 0.4% in July. The increase was in line with economists' expectations. Core consumer spending rose 0.2% after climbing 0.3% in July. Consumer spending is being driven by a tightening labor market that is starting to lead to wage and income growth, as well as high consumer confidence. Spending on goods rose 0.3% in August after rising an upwardly revised 0.5% in July. Spending on services rose 0.4% for the second consecutive month, with much of the increase due to healthcare spending. Personal income rose 0.3% after growing by 0.3% in July. Wages jumped 0.5% after rising 0.4% in July. Spending is being supported by a robust labor market and an economy at what is regarded as full employment. The savings rate was unchanged at 6.6%. The personal consumption expenditures (PCE) price index excluding food and energy was unchanged after rising 0.2% in July, leaving the annual core PCE price index at the Fed's inflation target of 2.0% for the fourth time this year. The PCE has not been at target since 2012.

Consumer Prices Rise 0.2%

The Consumer Price Index (CPI) rose 0.2% in August after rising 0.2% in July. The CPI was up 2.7% over the past twelve months after being up 2.9% year over year in June and July. Core inflation, which excludes food and energy, rose 0.1% in August after rising 0.2% in July and was up 2.2% from August 2017, down from 2.4% in July. Both increases were below expectations. Increases in gasoline and rents were offset by declines in healthcare and apparel costs, and analysts noted that underlying inflation pressures appeared to be slowing. Wages adjusted for inflation rose just 0.1% in August and were up 0.2% over the past twelve months. Analysts believe the current expansion still has room to run, but no one is sure why the very hot labor market has not spurred income growth. Slow income growth has a tendency to dampen consumer spending

Unemployment Drops to 3.7%

The unemployment rate fell to a lower-than-expected 3.7% in September and the economy added just 134,000 new jobs, well below expectations. However, job gains for August were revised up by 69,000 jobs, to a level of 270,000, and gains for July were revised up by 22,000. The unemployment rate was the lowest since 1969. Construction payrolls rose by 23,000 and manufacturing added 18,000 new jobs. Retail shed 20,000 jobs. Hurricane Florence may have affected the numbers for the month, as the Labor Department said that 299,000 people were not at work due to bad weather. The drop in unemployment reinforced market expectations for a fourth increase in interest rates by the Federal Reserve this year and at least three more increases in 2019. The economy needs to create about 120,000 new jobs each month to keep up growth in the working-age population. Average hourly earnings rose 0.3% in September after advancing a downwardly revised 0.3% in August. That dropped the annual increase in wages to 2.8% from 2.9% in August.

Durable Goods Orders Rise 4.5%

Durable goods orders rose 4.5% in August after falling an upwardly revised 1.2% in July. The increase in orders, which was more than twice what economists were expecting, was largely driven by a big jump in orders for commercial aircraft. Core durable goods orders for non-defense capital goods excluding aircraft, widely regarded as a key indicator of business spending, fell 0.5% after rising an upwardly revised 1.5% in July. Nondefense capital goods shipments, which factor into GDP, rose 3.0% in August after falling a downwardly revised 4.4% in July. The durable goods report is volatile and often subject to sharp revisions.

Chicago PMI Falls to 60.4

The Chicago Purchasing Managers' Index (PMI) fell to 60.4 in September after falling to 63.6 in August. It was the lowest level for the index in the past five months and only the second time the index has been down year over year since January 2017. Nevertheless, the PMI still indicates strong overall business conditions, with all key measures above their historic levels. Growth across Production and New Orders was solid, although Production was at a 6-month low and New Orders growth was the slowest pace in five months. Order Backlogs rose in September; healthy demand has left firms unable to fill all orders. About half the firms questioned thought that their delivery times would lengthen in the final quarter of the year and expect ongoing trade disruptions to continue to weigh on their suppliers.

Wholesale Prices Fall 0.1%

The Producer Price Index (PPI) fell 0.1% in August after being unchanged in July. The PPI was up 2.8% from August 2017, down from a 3.3% annual rise in July. Core producer prices, which exclude food, energy and trade services, also fell 0.1% in August after rising 0.3% in in both June and July. Core PPI was up 2.9% from August 2017, matching the record high of 2.9% reached in March of this year. Both the headline and core indexes were held down by the second consecutive monthly drop in the volatile "trade services" component, which measures profit margins for retailers and wholesalers, and dropped 0.1% in August after plunging 0.8% in July.

Q2 GDP Grows 4.2%

GDP growth of 4.2% in the second quarter was unrevised from the second reading and up from 4.1% in the first reading. Growth remained the fastest pace in nearly four years and puts the economy on track to hit the administration's goal of 3.0% annual growth. Upward revisions to spending on residential structures and on nondurable goods like gasoline were offset by lower numbers for inventory investment. The economy expanded 3.2% in the first half of the year, with growth in the second quarter driven by the $1.5 trillion tax cut package, which boosted consumer spending after it threatened to stall earlier in the year. Consumer spending remained strong in the current third quarter, but the housing market continued to weaken.

Job Openings Rise 1.7%

The number of job openings increased 1.7% to 6.9 million in July, with US employers advertising the most jobs on record and the number of workers quitting their jobs hitting an all-time high of 3%, or 3.58 million people, according to the Job Openings and Labor Turnover Survey (JOLTS). Average hourly pay rose 2.9% in August compared to August 2017, the best annual gain since June 2009, when the Great Recession ended. Hires have outpaced separations every month since August 2010. The JOLTS report is one of the Fed's preferred economic indicators.

Fed Raises Rates 0.25%

The Federal Reserve Board raised interest rates 0.25% to a range of 2.0% to 2.25% at their regular meeting the end of September. The increase was approved by a unanimous vote of the Fed board, which said the economy had been growing at a "strong rate," and also removed the word "accommodative" from the announcement. That means the short-term rate is approaching a more normal level after years of being kept very low to help the economy recover from the Great Recession. The

Fed also confirmed they expect to make further gradual increases in rates. It was the third time the Fed has raised rates since Fed Chairman Jerome Powell took over from Janet Yellen in February. One more rate increase is widely expected this year. Fed officials also projected three more rate increases for 2019, which would bring the target rate to between 3% and 3.25% by the end of next year. Core PCE inflation has been very close to the Fed's target of 2.0%. Economists say that Fed is closer than it has been in a long time to achieving the Fed's dual mandate of maximum employment and stable prices.

Trade Wars Intensify

Both the US and China imposed new tariff hikes on each other's goods in late September. US regulators went ahead with a planned 10% tax on a $200 billion list of 5745 Chinese imports. China responded by beginning to collect taxes of 5% to 10% on a $60 billion list of 5,207 American goods. China accused the US of bullying and being unwilling to compromise.

Canada and US Reach Trade Agreement

The US and Canada reached an agreement that will replace the North American Free Trade Agreement (NAFTA). The US had previously made a solo deal with Mexico. Canada is America's second largest trading partner. Negotiations involved offering more market access to US dairy farmers, as well as Canada agreeing to an arrangement that effectively caps automobile exports to the US. The deal will also modernize what was covered by NAFTA by adding provisions on digital trade and intellectual property. The US and Canada issued a joint statement saying that the agreement will "strengthen the middle class and create good, well-paying jobs and new opportunities." The plan is for the leader of all three countries to sign before the end of November, at which point the agreement will be submitted to Congress. One US official pointed out that it was an exceptionally enforceable trade agreement, and comes up for review every six years.

HOUSING & CONSTRUCTION

Housing Starts Rise 9.2%

Housing starts rose 9.2% in August to a seasonally adjusted annual rate of 1.28 million units after rising to 1.17 million units in July. **Single-family starts rose 1.9%** to 876,000 units after rising to 869,000 units in July. Multifamily starts jumped 29.3% to 408,000 annual units after rising to 306,000 units in July. Multifamily data tends to be particularly volatile on a month-to-month basis. NAHB Chief Economist Robert Dietz warned that increasing costs for building materials and the impact of recently imposed tariffs, along with gradually rising interest rates, are all of concern, and expects the market to slow in the months ahead. NAHB expects single-family starts to rise 5% this year; multifamily starts are expected to fall slightly. **Regional starts were mixed.** Starts were unchanged in the Northeast, and rose 19.1% in the West, 9.1% in the Midwest and 6.5% in the South.

Building Permits Fall 5.7%

Overall building permit issuance fell 5.7% in August to 123 million units after rising to 1.31 million units in July. **Single-family permits fell 6.1%** to 820,000 units after rising to 869,000 units in July. Multifamily permits dropped 4.9% to 409,000 units after rising to 410,000 units in July. **Permits fell in all regions,** dropping 19.2% in the Northeast, 1.7% in the Midwest, 2.9% in the South and 8.4% in the West.

New-Home Sales Rise 3.5%

Sales of newly built, single-family homes rose 3.5% in August to a seasonally adjusted annual rate of 629,000 units, but sales for June and July were revised down by a total of 40,000 units. Sales were up 6.9% from August 2017. The inventory of new homes for sale rose to 318,000 in August from 309,000 in July. The median sales price was $320,200. **Regional sales were mixed.** Sales rose 47.8% in the Northeast, 9.1% in the West and 2.7% in the Midwest. Sales fell 1.7% in the South, the nation's largest home market. 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 Flat

Existing home sales stabilized at 5.34 million homes in August after four consecutive months of declines. Sales were 1.5% below August 2017. Single-family home sales were unchanged at 4.75 million homes in August, 1.0% below the pace a year ago. Total housing inventory at the end of August also remained unchanged at 1.92 million homes, up from 1.87 million a year ago. Unsold inventory remained at a 4.3-month supply at the current sales pace, up from 4.1 months a year ago.

Regional home sales were mixed. Sales rose 7.6% in the Northeast and 2.4% in the Midwest, but fell 0.4% in the South and 5.9% in the West. The NAR says that while inventory levels are improving they are still not at a healthy level and new home construction is not keeping up. The combination of rising interest rates, high home prices and lack of inventory continues to push entry-level and first-time buyers out of the market.

Builder Confidence Remains at 67

Builder confidence remained at 67 in September, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). Component scores were mixed. Current sales conditions rose one point to 74, expectations rose two points to 74 and buyer traffic held steady at 49. The recent decline in lumber prices from record-high levels over the summer was a welcome relief, but builders still face many challenges producing competitively priced homes, especially in the face of rising wages and labor shortages. Looking at the three-month moving averages for regional HMI scores, the Northeast rose one point to 54, the South was unchanged at 70, the West fell one point to 73 and the Midwest fell three points to 59.

Mortgage Rates Rise to 4.72%

A 30-year fixed-rate mortgage (FRM) rose to 4.72% at the end of September from 4.52% at the end of August. It was the fifth consecutive week that mortgage rates went up, and the highest rates have been since the end of April 2011. Last year at the end of August rates averaged 3.83%. The robust economy, rising Treasury yields and the anticipation of more short-term rate hikes are behind the increase in mortgage rates. But according to Freddie Mac, even with higher borrowing costs, purchase applications have trended higher on an annual basis for six consecutive weeks.

POWER TOOL INDUSTRY

Robert Bosch

Bosch is teaming up with SiTime in a technology partnership to develop processes for the next generation of micro-electro-mechanical systems (MEMS) resonator products. They will enable higher speeds of 5G and longer battery life for IoT devices. Stable, reliable MEMS timing devices are needed for the successful operation of the new high-bandwidth IoT systems.

Bosch acquired a 4.4% stake in Ceres Power Holdings, a developer of next stage solid-oxide fuel cell technology. The partnership will focus on further development of the technology and the establishment of small-volume production operations at Bosch.

Stanley Black & Decker

SB&D is acquiring a 20% stake in MTD Products, a privately held global manufacturer of outdoor power equipment based in Ohio, for $234 million in cash. Under the terms of the agreement, SB&D has the option to acquire the remaining 80% of MTD beginning in July 2021.

CEO James Loree said that the investment in MTD will increase their presence in the $20 billion global lawn and garden market in what he termed a financially and operationally prudent way, and will enable them to expand beyond handheld outdoor products. MTD had 2017 revenues in excess of $2 billion. They manufacture and distribute lawn tractors, zero turn mowers, walk behind mowers, snow throwers, trimmers, chain saws, utility vehicles and other outdoor power equipment for both residential and professional customers. Their brands include Cub Cadet, Troy-Bilt and Remington. They manufacture in North America, Europe and Asia and have a global distribution network. The transaction is subject to regulatory approvals and is expected to close in early 2019.

From the Morgan Stanley Laguna Conference where SB&D was represented by CFO Don Allen:

They believe one of the benefits of their stake in MTD will be their ability to help MTD get their costs down. They will create a joint taskforce that will work on commercial opportunities for the different brands and joint utilization of the different technologies they bring to the table.

Eventually they will be moving toward replacing gas products with battery powered ones, which they believe is the next horizon for battery technology. They think a three to five year timeline for commercializing is reasonable.

They have had several price increases throughout the year in response to commodity inflation and currency impacts,

and now they are dealing with the impacts of the new tariffs. By the end of September their price increases will be fully implemented in the markets.

A lot of the tariffs do not dramatically impact power tools, although in some cases they impact components such as motors. Regardless of when tariffs take effect, there are a couple of months of lag time before the effect is felt in the market.

Their customers have been very reasonable and balanced during their pricing discussions In the face of commodity inflation and tariffs. One of the questions they are all dealing with is how much can prices increase before it starts to affect volume.

The Craftsman launch is still in the early stages but has been very well received. The brand stands for high quality at a reasonable price. Now that they will be able to marry the power of the brand with innovation and product technology they believe the brand will grow dramatically.

The rollout was planned strategically to begin with the Lowe's stores with the most volume and traffic where they felt the brand could have the biggest impact. The Craftsman rollout began around Father's Day with a limited number of products. They are now beginning the full rollout. When it's complete, about 1,200 products will be stocked in each Lowe's store.

When they acquired Craftsman the supply chain was a bunch of external vendors who supplied products to Sears. Today they are manufacturing about 40% of the products and see the opportunity to get that close to 80% over the next two to three years. Their capacity to manufacture in house has been greater than they initially projected.

They still believe Craftsman will be at least a $1 billion brand, but don't think it will take it the ten years initially forecast to reach that goal.

Amazon will only have selective Craftsman products this year, but the Amazon rollout is progressing on schedule.

Craftsman has been a captive brand for a long time, and as Sears has shrunk their footprint over the past decade, the number of people exposed to the brand has fallen. So there is need for a marketing refresh. Craftsman will probably start having a presence in sports marketing, especially baseball and NASCAR.

Cannibalization will definitely be a factor, and there is some cannibalization happening in the rollout as some of their brands are coming out of Lowe's as Craftsman goes in, but their shelf space is expanding and their dollar volume will expand significantly.

There is a little competition between Stanley brand and Craftsman but they think it can be managed. DeWalt is targeted at a different part of the market.

Their growth and performance in the tools market correlates more to GDP than it does to housing starts and remodeling indexes.

Other News:

DeWalt is partnering with the Statue of Liberty-Ellis Island Foundation to support the construction of the Statue of Liberty Museum. The museum is scheduled to be completed in 2019. DeWalt is providing funding and donating thousands of premium power tools, hand tools and accessories, including a variety of FlexVolt tools. The museum's construction is being led by Phelps Construction Group. The sponsorship also marks the beginning of the DeWalt Honors campaign that will highlight builders globally who exemplify a lifetime of work in the building and construction trades on sites of historical and cultural significance.

SB&D and LEGO Brand Group completed a $19 million equity investment in Evolve Additive Solutions, whose proprietary Selective Thermoplastic Electrophotographic Process (STEP) technology is designed for automated manufacturing and factory-floor integration. The commercialization of STEP has significant advantages for molding processes. Evolve's mission is to produce innovative manufacturing solutions that enable customers to manufacture in revolutionary new ways.

SB&D was named to the Dow Jones Sustainability World Index, which is regarded as a gold standard for corporate sustainability. Earlier this year SB&D also aligned their Corporate Social Responsibility (CSR) strategy with the United Nations' 2030 Sustainable Development Goals, and in February their environmental targets were approved by the Science-based Targets Initiative.

Trimble

Trimble announced that they are bringing the range of Trimble companies under a "One Trimble" umbrella. Companies include PeopleNet, 10-4 Systems and ALK. The goal is to improve innovation and deliver comprehensive solutions. Trimble is based in Sunnyvale, California and employs 11,000 people in 36 countries.

Trimble introduced Trimble SmartDelivery, which offers electronic proof of delivery, routing and fleet mobility technology that provides real-time activity data. They also introduced a variety of other transportation solutions.

RETAIL

Retail Sales Rise 0.1%

Retail sales rose just 0.1% in August after rising an upwardly revised 0.7% in July. It was the weakest showing for retail sales in six months and well below expectations. Only an increase in gasoline sales prevented retail sales from declining as sales excluding gasoline fell 0.1%. Receipts fell 0.8% at auto dealers, which account for about 20% of all retail spending. Online sales climbed 0.7%. Core retail sales, which exclude autos, gasoline, building materials and food sales, rose just 0.1% in August but July core sales were revised up from 0.5% to 0.7%. Sales at building material stores were unchanged in both July and August after rising 2.8% in June. Many economists are unsure about how the trade wars and new tariffs will impact retail sales.

Holiday Retail Sales Forecast

Holiday sales should rise 5% to 5.6% this holiday season and spending should exceed $1.1 trillion between November and January, according to the latest forecast from Deloitte, which excludes motor vehicles and gasoline. They expect ecommerce sales to increase 17% to 22%, reaching $128 billion to $134 billion. Deloitte analysts attribute the increase to disposable income growth, a strong labor market and high consumer confidence.

Online Holiday Forecast

Online holiday sales are expected to increase 15% this holiday season, up from 13% last year, according to retail search marketing company NetElixir. They also project that Amazon will account for 40% of online holiday sales this year, up from 35% in 2017. NetElixir based their optimistic forecast on a strong first half of 2018, during which sales increased 17% and revenue rose 15.5% compared to 2017. The three peaks they identified include the five-day period from Thanksgiving to Cyber Monday; a four-day period from December 9 to December 12 that includes Green Monday, December 10, typically the third largest shopping day of the holiday season; and a mobile shopping spike expected to happen December 18 - 21 as last-minute shoppers turn to internet retailers to help them finish their holiday shopping.

The Home Depot

From the Goldman Sachs Global Retailing Conference:

Moderator Goldman Sachs analyst Matt Fassler said that THD is among the most productive and profitable retailers, as well as one of the most innovative. It was THD's twenty-fifth appearance at the conference.

THD was represented by CEO Craig Menear and CFO Carol Tome, who between them have nearly 40 years of experience with THD.

THD decided to literally double their investment in the business over the next several years to $11 billion. They explained that they're doing it because the retail environment and the way customers are engaging with them is changing very rapidly and blending the physical and digital world together. That's why they are committed to creating the One Home Depot experience for the customer. About half of the investment will go into the stores to continue to enhance the physical environment and address key "pain points" for customers. They will also be creating a more seamless interconnected experience for their stores. The $1.2 billion that will go into the supply chain over the next five years will allow them to move to a same-day, next-day delivery network for about 95% of the US population.

They now have the ability to personalize the consumer's web experience and modify what each visitor to the website sees based on customer behavior and what THD believes they are looking for.

They will also be focusing on personalization for customer segments, the first of which is the business-to-business (B2B) or Pro segment. They intend to roll out a full B2B website next fiscal year.

They are hiring many more data scientists and engineers today than they did even five years ago, and everything they do is supported by technology, so they are adding a lot of IT capability and software development. They are hiring 1,500 people in IT this year alone.

They have the first blockchain experience in the company going on, where they have a distributed ledger authorization between themselves and one of their suppliers, which will give them the ability to watch merchandise as it flows from the manufacturing plant to the stores and will also eliminate disputes with suppliers over goods shipped vs. goods received, etc.

Pros have different needs than consumers. THD is trying to bring innovation to the marketplace that saves Pros time or money and in today's labor market, innovations that make them more efficient or require less skilled labor.

The majority of the investment in the supply chain is on the downstream side, moving products from stores and distribution centers to customers' homes and job sites. They will eventually move a lot of the pallet staging and bulk distribution of products being delivered to job sites that now goes on in stores to distribution centers; that will work better for Pros and also create a better store environment for people shopping the store. They are also investing in automated lockers in the stores for pickup. Customers scan a barcode and then can grab their product from a locker and be on their way without having to engage with anyone.

The shopping experience in most categories today starts in the digital world. Stores have finite amounts of space; the digital world is infinitely expandable. They see an average ticket online that's almost three times the average ticket in store. The digital world also gives you the ability to test products with much less risk than in the physical world, so merchants can try things they might otherwise be hesitant to try. Often a customer might select part of what they need for a project in the digital world and part in the store itself.

They are able to attract top people because they are regarded as a great place to work and a company that does things that people coming out of school today think are cool. They also have core values that are embraced by millennials, including giving back to communities.

They hadn't adjusted their labor model in more than a decade and realized they needed to do a better job of matching resources to customers' needs and making sure enough people are available to help customers when needed.

The relationship between housing turnover and comp sales has changed. The historical relationship between housing turnover and comp sales is very tight, but the relationship today is very disconnected. Their research showed that when correlation was tight, there was generally a housing surplus. Today there is a housing shortage. So turnover is a driver of spend, but not a driver of growth. What's been driving growth is home appreciation, with average equity values up 138% since 2011.

They have had outsized gains in appliances and have been able to ramp up their presence in appliances thanks to the combination of the digital and physical worlds.

Innovation is helping drive up average ticket as well. The advances in lithium technology are a good example. For instance, a lithium-powered lawnmower is typically in the $500 range, whereas a gasoline mower would more likely be in the $200 to $300 range. So trading up drives up average ticket. Advances in categories give customers a reason to invest in something they might already own because now a better version is available.

They are in the process of building the capability to connect their services businesses to the digital world, which is part of the investment they are making. They have not yet "shouted out" their presence in services; right now they are running their first ever national ad for services. Already in certain parts of the country if you buy a garage door opener and want it installed you can click a button and they will install it for you.

They are also dedicated to measuring the customer satisfaction with their services business, including doing quality control checks, upfront checks on providers, customer surveys afterwards and collecting ratings scores from customers for every category. The reason they have a services business is to sell more products.

When asked about the impact of tariffs, they said their size and scale gives them an advantage and they do as much as they can to mitigate the impact by working with suppliers.

Payroll is their largest investment and it leverages with sales growth. They believe they can put $11.1 billion in the business and deliver as high as $120 billion in sales by 2020 with an operating margin of 15%. They meet every week to track their investments against their objectives and see if there is anything they need to do differently.

Other News:

THD rolled out express same-day and next-day local delivery of more than 20,000 of their most popular items to 35 major metros across the US. Qualifying products include everything from power tools to garden and décor. Customers can use the service by selecting it on the website or app. THD is partnering with car and van providers like Roadie and Deliv to offer options for smaller items and is continuing to expand the supply chain to offer speedier delivery of large and bulky items. The five-year plan calls for more than 100 new distribution sites as well as additional direct fulfillment centers.

THD is looking to lease between 500,000 and 700,000 square feet of additional industrial space in the Houston area. Homebuilders in Houston are busier than they have been in years, with some of that growth attributable to rebuilding after Hurricane Harvey.

The THD Foundation is donating $3 million for disaster relief efforts and communities impacted by recent disasters, including Hurricanes Florence and Olivia, the California wildfires and flooding in the Midwest. The Home Depot employee assistance program, The Homer Fund, is also providing emergency assistance to affected associates.

Lowe's

CEO Marvin Ellison told attendees at the 25th Annual Goldman Sachs Retailing Conference in New York that Lowe's has some work to do. They need to become more efficient and get the best performance out of the capital invested.

Ellison wants to focus more employee time on customers and make every square foot in the store more productive.

He also wants to move the process of appliance deliveries from stores to consolidated fulfillment centers, the first of which opens this fall in Tennessee.

Ellison also has a plan to reduce stocking time. He wants deliveries to stores from distribution centers to be divided up by where they go in the store, which will reduce stocking time by 60% to 70%.

As CEO, Ellison will get a base annual salary of $750,000 with an opportunity to double that through the bonus program. New CFO David Denton will have a base salary of $925,000, with a $1 million signing bonus.

Walmart

Walmart is updating their Jet.com site, offering faster delivery, new merchandise, more personalization and other enhancements. Many of the upgrades are tailored to the specific needs of urban areas. The changes also include a bigger emphasis on localization that will start with New York City and roll out to other major cities over time. Most NYC customers will be able to arrange three-hour scheduled delivery windows for their groceries and other select merchandise, and will be able to add customized delivery instructions at checkout. Delivery will be through Parcel, the same-day, last-mile delivery company Walmart acquired in 2017. Jet is also partnering with local brands and small businesses. In the coming months Jet plans to add more brands to the site, starting with Nike and Converse, which will be available in October.

Walmart is expanding their digital marketplace in order to attract more millennials and higher-end shoppers. WM recently launched a curated online store on their website for outdoor brand Moosejaw, which Walmart acquired in February 2017. It's the first time Walmart has created an online store on their flagship site for one of their acquired specialty retailers.

Since being acquired, Moosejaw has been taking advantage of Walmart's technology incubator, testing how virtual reality could enhance how shoppers engage with outdoor products. Moosejaw says that Walmart's scale has allowed them to take their business to the next level and take advantage of technology that would not otherwise have been available to them.

Sears

Sears total revenue plunged by more than $1 billion to $3.18 billion in the second quarter and comp store sales fell 4% at Sears and 3.7% at Kmart. The quarterly decline was less severe than it has been in recent quarters, with execs stating that comp store sales in July and August were actually positive. Sears has closed 384 stores this year, and had a total of 866 stores as of early August. CEO Eddie Lampert acknowledged that the turnaround has taken far longer than they expected, and that Sears has been at a disadvantage due to pension obligations, which have totaled $4.5 billion since 2005, as well as the shift to online shopping that most retailers are dealing with. It was nearly 40 days after the end of the quarter before Sears released results, and when they did so, they waited until US markets were closed.

True Value

Apex Tool Group was named True Value's Overall Supplier of the Year for 2017, and was featured in the company's annual report. True Value has been an ATG customer since 1967, but this is the first time they've been Supplier of the Year. True Value credited ATG with ramping up their investment in innovation to continuously improve even their most basic tool lines.

W.W. Grainger

***Crain's Chicago Business* ran a feature story on how Grainger dealt with "the Amazon effect."** Last summer, news that Amazon was beefing up their industrial supply business sent Grainger stock plummeting. But today Grainger shares are trading near an all-time high on surging sales and expanding profit margins. Well before Amazon went on the offensive Grainger's business was suffering as customers found better deals online elsewhere. Grainger responded by slashing prices on a range of products last year, which sent sales soaring, especially with midsize companies that tend to shop around because they have less leverage with suppliers. Amazon's business supply unit reportedly has about 300,000 customers and about $1 billion in sales. Analysts say Amazon caters mostly to smaller businesses looking for the lowest possible price, and cannot match Grainger's business and sales model, which relies on sales reps.

Amazon

Amazon ordered 20,000 Sprinter vans from Mercedes-Benz, which is producing the vans at their new plant in North Charleston, South Carolina. The order is part of the company's new Delivery Service Partner program, which allows small business owners to work with third-party fleet management companies to acquire customized vans and get special leases in order to keep startup costs low.

Amazon's second headquarters, known as HQ2, will be announced by the end of the year, according to CEO Jeff Bezos, who spoke at the Economic Club of Washington's 32nd anniversary celebration. Bezos covered a wide variety of subjects, and commented that Amazon "elbows for customers" in the real world, where they face serious competition.

Amazon is reportedly ready to establish up to 3,000 Amazon Go stores within the next three years. Amazon has opened three Amazon Go stores in Seattle, and opened another one in late September in downtown Chicago. The model uses less than 2,000 square feet of space, so finding locations is relatively easy. Morgan Stanley estimates that Amazon could spend as much as $3 billion rolling out the stores. The original Amazon Go in downtown Seattle required more than $1 million in hardware alone, according to inside sources. Amazon thus far has focused on grab and go foods, including prepared foods and Amazon meal kits. Customers use the app to swipe a code on the way in. Cameras and sensors in the store track items and charge the credit card on file after the customer leaves.

Amazon plans to sell and ship live Christmas trees this holiday season. Amazon says the trees, which include Douglas firs and Norfolk Island pines, will be shipped within 10 days of being cut down. Trees will be bound and shipped without water; some will be delivered free for Amazon Prime customers. You can buy a 7-foot tree from a North Carolina farm for $115.

Amazon CEO Jeff Bezos is starting a $2 billion fund called the Bezos Day One Fund to support numerous charitable causes, including helping homeless families and opening new preschools in low-income neighborhoods.

Amazon is planning to introduce as many as eight new Alexa-powered smart home devices later this year, including a microwave oven, a set of higher-end home audio gear and some type of device designed to work in vehicles.

CANADA SNAPSHOT

Interest Rates Steady

As expected, the Bank of Canada (BoC) left interest rates alone at 1.5% at its meeting in early September, but many market watchers predict another increase could come as soon as October. The BoC's statement noted that more increases should be expected due to encouraging numbers for business investment and exports and evidence that households are adjusting to higher borrowing costs. The bank also made a point of noting that it was closely watching NAFTA negotiations and other trade developments that could have negative impacts on the Canadian economy and trigger inflation.

Unemployment Falls to 5.9%

The unemployment rate fell to 5.9% in September after rising to 6.0% in August and the economy added 63,000 new jobs, according to Statistics Canada's latest labour force survey. Employment was up 1.2%, or 122,000 jobs, from September 2017. The increase was entirely the result of gains in full-time employment. Employment increased in Ontario and British Columbia and was little changed in the other provinces. Employment increased by 28,000 jobs in construction and was up 2.4% from September 2017.

Consumer Confidence Drops

The Index of Consumer Confidence declined in September as Canadians became more pessimistic about both their current and future finances. Throughout the first half of the year, strong wage growth was able to offset the higher debt costs that came with rising interest rates. However, with wage growth beginning to weaken and the expectation that interest rates will continue to rise, Canadian households are becoming less confident. 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 3.0%

The Consumer Price Index (CPI) rose 2.8% on a year-over-year basis in August, following a 3.0% increase in July, according to Statistics Canada. Excluding gasoline, the CPI increased 2.2%, matching the gain in July. Prices were up across all eight major components. On a seasonally adjusted monthly basis, the CPI rose 0.1% in August after rising 0.5% in July, with the CPI for seven out of eight components rising. The increase indicates that the economy is operating close to capacity, as recent wage growth has begun to lift prices, and higher fuel prices are being felt across the board.

GDP Grows 0.2% in July

Canada's GDP rose 0.2% in July after being essentially flat in June and was up 2.4% from July 2017. Growth was slightly ahead of expectations. GDP grew 2.9% in the second quarter, up from 1.3% growth in the first quarter. The increase was concentrated in 12 out of 20 sectors. Home resale activity increased in the majority of Canadian markets, led by growth in Ontario. This was the third increase in four months, following a 13.5% decline in the first quarter of 2018. The construction sector declined for the third time in four months, with a 0.6% decrease in July. Residential construction was down 1.5%, the largest decline since a strike-influenced decrease in May 2017, because of lower construction of most types of structures along with a decline in home alterations and improvements. Non-residential construction declined 0.5% as public and commercial construction contracted. The decline in repair construction (-0.3%) was fully offset by growth in engineering and other construction (+0.2%). Retail trade edged down 0.1% in July as the decline in three subsectors more than offset growth in the remaining nine.

Canada/ US Trade Updates

Softwood lumber is still in limbo. In an effort spearheaded by the US National Association of Homebuilders (NAHB), a dozen Republican and Democratic members of the US Senate sent a joint letter to the Trump administration calling on the US to resume softwood lumber trade negotiations with Canada, and stating that tariffs being imposed of 20% or more have caused lumber prices to skyrocket.

Housing and Construction News

Housing starts fell to 200,986 units in August, down from 205,751 units in July, according to Canada Mortgage and Housing Corp. Economists had expected starts to rise to 210,300. The decrease came as the annual pace of urban starts fell 2.5% to 184,925 units. Starts of urban multiple-unit projects such as condos, apartments and townhouses fell 2.4%

BOSCH
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to 132,700 units in August while single-detached urban starts fell 2.6% to 52,225 units. Rural starts were estimated at a seasonally adjusted annual rate of 16,061 units. CMHC says the six-month trend for housing starts was 214,598 units in August, down from 219,656 in July and continuing to trend down from the historic peak recorded in March 2018. Canadian home sales have slowed over the past year due to a tougher rules around obtaining a mortgage which were implemented to restrict growth in household debt and measures to curb foreign investment in Toronto and Vancouver.

Home sales rose 0.9% in August to 39,038 units after rising 1.9% in July, according to the Canadian Real Estate Association (CREA). It was the fourth consecutive monthly increase in home sales. However, year-over-year sales dropped 3.8%. CREA attributed the annual drop in sales to major declines in British Columbia and stricter mortgage regulations that took effect at the beginning of the year. Sales increased 7.6% in Greater Toronto, where sales are regarded as fairly normal. After this latest report CREA is now forecasting that home sales this year will drop 9.8% to 462,900 homes.

Retail Sales Rise 0.3%

Retail sales rose 0.3% to $50.9 billion in July on higher sales at food and beverage stores and gasoline stations. Excluding the lower sales at motor vehicle and parts dealers, retail sales increased 0.9%. Sales were up in 8 of 11 subsectors, representing 54.8% of total retail sales. After removing the effects of price changes, retail sales in volume terms decreased 0.1%. Sales rose in eight provinces, but fell in British Columbia for the third consecutive month. On an unadjusted basis, retail ecommerce sales totaled $1.3 billion, accounting for 2.5% of total retail trade. On a year-over-year basis, retail ecommerce rose 9.4%, while total unadjusted retail sales increased 3.8%. In Canada, retail sales account for about half of all consumer spending, and are considered a proxy for overall consumer spending.

Retail Notes

Rona offered to buy the Canadian operations of Lowe's years before Lowe's decided to convert Rona stores to Lowe's stores. According to Rona's former CEO Robert Dutton, he first offered to buy Lowe's Canadian stores in July 2011, and after he determined that Lowe's was really interested in a hostile takeover, he approached several large Rona shareholders and blocked Lowe's bid in 2012.

Walmart Canada is teaming up with American company Instacart as they look to expand delivery capabilities. They'll be offering the service in Toronto and Winnipeg, the first time shoppers in either area will have access to same-day delivery options. Instacart, while a US company, does not currently work with Walmart's US operations.

MARKET TRENDS

National Retail Federation Conference

More than two dozen of the best and brightest leaders from retail, technology and business will be among the headline speakers as more than 37,000 retailers from nearly 100 countries gather in New York in January to address the latest trends, innovations and strategies for success in retail. Among the speakers will be Lowe's new President and CEO Marvin Ellison, Target's CEO Brian Cornell, Walmart EVP and CIO Clay Johnson, Alibaba Group President Michael Evans and former Federal Reserve Chairwoman Janet Yellen.

Tracking Sales from Digital to Physical Worlds

Google and Mastercard made a secret deal about a year ago to track retail sales using a potent new tool that tracks whether ads companies ran online led to transactions in a physical store in the US. Insiders say it took about four years of negotiations for the two giants to reach a deal. The alliance gave Google an unprecedented asset for measuring retail spending, but now that the deal has been uncovered, it is raising privacy concerns. Google reportedly paid Mastercard millions of dollars for the data. A Google spokeswoman declined to comment on the partnership but did address the tool, and said that it uses double-blind encryption technology that prevents both Google and their partners from viewing users' personally identifiable information. Information is reportedly only shared with a merchant's permission and does not track individual transactions or personal data on individual customers. Google calls the service Store Sales Measurement, and said it has access to approximately 70% of US credit and debit cards through partners, without naming them. Google has flagged when someone who clicked an ad visits a physical store since 2014, using the Location History feature in Google Maps, but advertisers did not know if the customer made a purchase. Here's an example of how it works: A customer searches for "battery powered drills" online and does some research, but doesn't buy anything. Later she walks into a retail store and uses her Mastercard to buy a drill. The advertiser who ran the ad gets a report from Google listing the sale as Offline Revenue if the browser made the purchase within 30 days of clicking on the ad. Google's ad business hit $95.4 billion in 2017 and has been growing about 20% a year.

Pop Up Good Housekeeping Store

Sears is partnering with *Good Housekeeping* magazine and leveraging the Good Housekeeping Seal of Approval. Kenmore Stand Mixers will be featured in a three-month pop-up retail store inside Mall of America called GH Lab. The 2,800-square-foot store is designed with different "rooms," helping shoppers visualize products within their own homes and also experience the rigorous science GH Labs puts products through. The GH Lab will offer only one item that was tested and recommended in each product category. In addition to Kenmore, brands include Microsoft, iRobot and Samsung. Every product featured has been tested by the GH Institute and carries the coveted GH Seal of Approval. The store will be open to the public from October 3 through December 30 and will offer consumers the chance to see, test and purchase more than 40 products. All merchandise will also be shoppable through Amazon SmileCodes, which allow customers to open the Amazon App, tap the camera icon and select the SmileCode Scanner; the product associated with the SmileCode will appear on the screen. The customer adds it to their Amazon cart and checks out as they normally would. GH is also launching an online boutique on Amazon, where consumers can shop GH-tested products and have them delivered to their door.

Turning AI into a Money-Maker

Amazon is working at turning the artificial intelligence known as Alexa into a profitable entity on its own. Echo started out as one device powered by the voice known as Alexa, but has since expanded into a line of several devices at several price points from entry-level to high-end. Amazon doesn't reveal sales, but has acknowledged that they have shipped tens of millions of Echo devices last year alone. In August Amazon linked Alexa to Whole Foods, so users can order groceries for delivery in the dozens of cities where Amazon offers Prime Now food delivery services. People can create a list over several days if they want; when they are ready to order, they tell Alexa to checkout. Alexa sends the list to the user's smartphone to be reviewed, and asks the customer to select a two-hour delivery window unless they'd like to go pick up their order. Amazon is looking to monetize Alexa in a variety of different fields. Amazon has even partnered with Marriot Hotels so travelers can use Alexa while they are on the road. They are also developing new machine learning tools to help developers more easily build Alexa skills.

Bezos Act Would Tax Companies for Federal Benefits

Senator Bernie Sanders introduced legislation aimed at companies like Amazon and Walmart that employ low-paid employees. It's named the Stop Bad Employers by Zeroing out Subsidies, or BEZOS Act. Jeff Bezos is the founder and CEO of Amazon. The bill would establish a 100% tax on companies equal to the federal benefits that their employees receive. Covered public assistance programs include Medicaid, Section 8 housing, Food Stamps and the National School Lunch and Breakfast programs. The legislation has no real chance of passing in a Republican-controlled Congress but it is a bellwether of the direction the House may move if Democrats gain a majority in the November mid-term elections and indicative of the trend to hold companies accountable.

Employee Retention Programs

In today's tight labor market, companies are trying different ways to ensure customer loyalty. Microsoft just gave out surprise stock bonuses worth as much at $100,000 to engineers to keep them from leaving the company and going to a competitor. Poaching is a major concern for many technology companies, including Google and Amazon. More than 4,800 LinkedIn users list Amazon as their current employer and Microsoft as a previous employer, with about 2,500 listed Microsoft as current and Amazon as previous. Other companies are trying to encourage employees to stay put with a variety of incentives, including more flexible hours, better workspaces, the opportunity to work from home, on-site nurseries and child care, sabbaticals and leaves of absence and more. Many retailers competing for holiday workers this season are offering extra perks like discounts, higher wages and the possibility of a full-time job.

Amazon Storefronts Debut

Amazon is launching a new online marketplace called Storefronts where consumers can shop for more than 1 million products from nearly 20,000 US companies. Amazon is supporting the launch with national TV spots featuring real businesses that sell on Amazon, and will also feature a "Storefront of the Week" and a series called "Meet the Business Owner." Small and medium-sized businesses (SMBs) have become a major focus for Google and Facebook as well. Half of everything sold on Amazon comes from SMBs. Consumers can access Storefronts from the Amazon home page.

Amazon's Alexa Fund Invests in Home Construction Startup

Amazon's Alexa Fund made its first investment in the home prefabrication market, participating in a $6.7 million Series A bond offered by California-based Plant Prefab. Plant Prefab manufactures custom single- and multifamily homes that they say are sustainable, healthy and high quality. They claim to be the first home factory in the country focused on sustainable construction, materials, processes and operations with homes designed and built to minimize the negative impact of development. The company says its approach reduces construction time by half and costs by 10% to 25% in major cities. Plant Prefab is an offshoot of LivingHomes, a design and development company that is known for award winning pre-fabs; they built the nation's first LEED Platinum home. The target market is housing-crunched major metros like Los Angeles, New York and San Francisco as well as in Silicon Valley, all areas where high costs, lot and labor shortages and a host of other problems create a real dearth of affordable homes.