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Target Wants to Make the World Better

Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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US ECONOMY

Exchange Rates November 30, 2018

Euro	1 Euro = \$1.132	\$1.00 = 0.883 Euros
Canadian Dollar	1 CAD = \$0.753	\$1.00 = 1.329 CAD
Japanese Yen	1 Yen = \$0.009	\$1.00 = 113.550 Yen
Chinese Yuan	1 Yuan = \$0.144	\$1.00 = 6.960 Yuan
Mexican Peso	1 Peso = \$0.049	\$1.00 = 20.310 Pesos

Market Watch November 30, 2018

DOW	25,538	1.7%
NASDAQ	7,331	0.3%
S&P 500	2,760	1.8%

Volatility continued throughout November, with markets posting big losses until the Fed changed the tone of their statement about interest rates and word came down that the US and China were “making progress” on trade talks at the end of the month, helping to fuel a late-month rally that saw all three indexes finishing the month with gains after big losses in October. For the month of November, the DOW gained 1.7% to close at 25,538, the NASDAQ gained 0.3% to close at 7,331 and the S&P, the index most closely watched by analysts, gained 1.8% to close at 2,760.

Consumer Confidence Falls to 135.7

The New York-based Conference Board’s Consumer Confidence Index fell to 135.7 in November after rising to 137.9 in October, according to the Conference Board’s latest survey. The modest drop was due to a decline in expectations, which fell to 111.0 from 115.1 in October. Consumers became slightly less optimistic about future business conditions and personal income expectations. The Present Situation Index rose slightly to 172.7 from a downwardly revised 171.9. Economists note that a level of 90 indicates that the economy is on solid footing and a level of 100 or more indicates growth. Analysts caution that the real driver behind consumer spending is income growth and that labor market trends are a more accurate predictor of consumer behavior.

Consumer Spending Rises 0.6%

Consumer spending rose 0.6% in October after rising a downwardly revised 0.2% in September and 0.3% in August. It was the eighth consecutive month that consumer spending increased. Core consumer spending rose 0.4% after rising 0.3% in September. Spending on goods rose 0.5% after increasing a downwardly revised 0.1% in September and spending on services rose 0.7% after rising 0.3% in September. Personal incomes rose 0.5% after rising 0.2% in September, an indication that the tight labor market is finally producing meaningful income gains. Wages rose 0.3% after rising 0.2% in September. The savings rate dropped again. The personal consumption expenditures (PCE) price index excluding food and energy edged up 0.1% after rising 0.2% in September, dropping the annual core PCE price index to 1.8%, below the Fed’s inflation target of 2.0%.

Consumer Prices Rise 0.3%

The Consumer Price Index (CPI) rose 0.3% in October after edging up just 0.1% in September. The CPI was up 2.5% over the past twelve months, after being up 2.3% in September. It was the largest increase in nine months, driven by the cost of gasoline and rents. Core inflation, which excludes food and energy, rose 0.2% in October after rising 0.1% in September was up 2.1% from October 2017, down from 2.2% year over year in September. Oil prices have dropped nearly 25% since data for the CPI was gathered; economists said that overall inflation could slow accordingly, but the Fed is likely to regard any oil-driven retreat as temporary and focus on underlying price pressures.

Unemployment Steady at 3.7%

The unemployment rate remained at 3.7% in November for the third consecutive month and the economy added 155,000 new jobs, below expectations of 198,000 jobs. Job gains for October and September were revised down by a total of 12,000. So far this year employers have added an average of 206,000 new jobs, well ahead of the 182,000 jobs averaged in 2017. Construction companies added only 5,000 jobs after adding 24,000 in October, although that may have been in part due to more adverse weather this November. US payrolls have now grown for 98 consecutive months, by far the longest stretch of steady hiring on record. Wages grew 3.1%, matching the high-est rate in nearly a decade. The unemployment rate remained unchanged at the lowest level since 1969. The economy needs

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

Durable Goods Orders Fall 4.4%

Durable goods orders fell 4.4% in October to \$248.52 billion after rising to an upwardly revised \$260.2 billion in September. Economists had forecast a 2.5% decrease in orders. It was the biggest monthly decline since September 2017. Core durable goods orders for non-defense capital goods excluding aircraft, widely regarded as a key indicator of business spending, were flat in October after declining 0.5% in September and 0.2% in August. Nondefense capital goods shipments, which factor into GDP, fell 0.6% in October after being flat in September. The durable goods report is volatile and often subject to sharp revisions.

Chicago PMI Rises to 66.4

The Chicago Purchasing Managers' Index (PMI) jumped eight points to an 11-month high of 66.4 in November after falling to 58.4 in October, reversing three months of declines. There were increases across all five of the Barometer's subcomponents, but New Orders, Production and Order Backlogs were the key drivers. Prices Paid moderated but remained in a historically high range. Many firms reported that supply-side issues are weighing on them, with customers negotiating prices and asking for earlier deliveries. Firms are also dealing with labor issues that are preventing them from filling backorders. Shortages and tariffs are expected to continue to push some prices higher.

Wholesale Prices Rise 0.6%

The Producer Price Index (PPI) rose 0.6% in October after rising 0.2% in September. The PPI was up 2.9% from October 2017, down from year-over-year price increases of 3.3% over the summer. Core producer prices, which exclude food, energy and trade services, rose 0.2% in October and were up 2.9% from October 2017. Despite the big increase, analysts say that the actual figures suggest that inflation pressures are mostly in check. Oil prices dropped, which will lower gasoline costs in the coming months.

Q3 GDP Growth Unrevised at 3.5%

GDP growth slowed to 3.5% in the third quarter after growing 4.2% in the second quarter. While the headline number was

unrevised from the first reading, the data showed that business spending grew 2.5% in the quarter rather than the 0.85% first recorded, while consumer spending was slightly weaker, growing 3.6% in the quarter rather than the 4.0% first reported. Exports declined more than first reported, dropping 4.4%. Consumer spending, which accounts for more than two-thirds of US economic activity, rose 4.0% in the third quarter after rising 3.8% in the second quarter. Economists warned that headwinds for the economy are growing, with business spending on equipment falling to 0.4% after rising at a 4.6% pace in the second quarter. Businesses are struggling to find workers and import tariffs are increasing manufacturing costs, which will eventually result in higher costs for consumers on everything from televisions and major appliances to luggage. Higher interest rates are also pressuring the housing market, which contracted in the third quarter.

Job Openings Drop

The number of job openings dropped by 284,000 jobs to 7.0 million at the end of September after reaching a revised series high of 7.3 million job openings in August, according to the Job Openings and Labor Turnover Survey (JOLTS). The number of job openings fell in both government and the private sector. The number of hires was little changed at 5.7 million after reaching a revised series high of 5.9 million in August. Hires were little changed in all industries. Total separations were little changed at 5.7 million in September and the number of quits was little changed at 3.6 million. The quits rate was 2.4%. The layoffs and discharges rate was 1.1% and the number of layoffs and discharges was little changed at 1.7 million. Over the 12 months ending in September, hires totaled 67.5 million and separations totaled 65.1 million, resulting in a net employment gain of 2.5 million. Hires have outpaced separations every month since August 2010. The JOLTS report is one of the Fed's preferred economic indicators.

Fed Holds Rates Steady

The Fed left interest rates unchanged at 2.0% to 2.25% at its regular meeting in early November, and at that time Fed Chairman Jerome Powell signaled that rates were "well below" neutral and that the Fed would continue to raise rates gradually amid stable economic growth. However, by the end of a month filled with market volatility, Powell changed his statement, noting that rates were now "slightly below" neutral, and sparking renewed enthusiasm on Wall Street. Powell has promised to

hold a press conference after all Fed meetings beginning in January 2019.

Global GDP Forecast

The global economy is expected to reach annual GDP growth of 3.7% between 2018 and 2020 before slowing to 3.6% between 2021 and 2023. Global GDP will exceed the \$100 billion mark around 2022, according to a Bloomberg analysis based on International Monetary Fund projections (IMF). The US share of global GDP growth is expected to drop from 12.9% today to 8.5% in 2023. China's share of world GDP growth is expected to increase to 28.4% in 2023 from 27.2% now despite slowing growth rates in China. India's share of global GDP growth will increase from 13% to almost 16%. Indonesia and Brazil will round out the top five. Other G7 members, including Japan, Germany, Italy and Canada, are also expected to be less important in overall GDP growth.

HOUSING & CONSTRUCTION

Housing Starts Rise 1.5%

Housing starts rose 1.5% in October to a seasonally adjusted annual rate of 1.23 million units from an upwardly revised September reading. **Single-family starts fell 1.8%** to 865,000 units after falling to 871,000 units in September. Multifamily starts rose 10.3% to 363,000 units after falling to 330,000 units in September. Multifamily data tends to be particularly volatile on a month-to-month basis. NAHB Chief Economist Robert Dietz warned that housing affordability was becoming an increasing issue and builders are showing caution as consumers are delaying purchases. Nevertheless, 2018 construction volume should be the best since the Great Recession. **Regional starts were mixed.** Starts rose 13.5% in the West and 5.5% in the South. Starts fell 0.6% in the Midwest and 4.8% in the Northeast.

Building Permits Fall 0.6%

Overall building permit issuance fell 0.6% in October after falling 0.6% in September and 5.7% in August. **Single-family permits fell 0.6%** to 849,000 units and multifamily permits dropped 0.5% to 414,000 annualized units. **Regional permit issuance was mixed.** Permits rose 7.6% in the South and 3.9% in the West. Permits fell 2.4% in the Midwest and 5% in the Northeast.

New-Home Sales Drop 8.9%

Sales of newly built, single-family homes fell 8.9% in October to a seasonally adjusted annual rate of 544,000 units, the lowest pace of sales since December 2016. However, sales numbers for the previous three months were revised up, and sales were up 2.8% from October 2017. The inventory of new homes for sale rose to 336,000 in October after rising to 327,000 in September and has risen 18% over the past year. The median sales price fell 3.6% to \$309,700 as the market continues to shift to lower-priced homes. The November NAHB/Wells Fargo homebuilders' survey noted a sharp decline in buyer traffic. **Regional sales were mixed.** New home sales rose 6.3% in the Midwest, 4.1% in the West, and 3.8% in the South. Home sales fell 17.1% in the Northeast. 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 1.4%

Existing home sales rose 1.4% in October to a seasonally adjusted annual rate of 5.22 million units after dropping to 5.15 million units in September. Sales were 5.1% below October 2017. The National Association of Realtors said that rising inventory levels have brought more people back to the market. The median existing home price rose to \$255,400; it was the 80th consecutive monthly increase in median prices. Total housing inventory dropped to 1.88 million homes in October from 1.9 million in September but was up from 1.80 million in October 2017. Inventory dropped to a 4.3-months supply in October from a 4.4-months supply in September but was up from 3.9 months a year ago. **Regional home sales were mixed.** Existing sales rose 1.5% in the Northeast, 1.9% in the South and 2.8% in the West. Sales dropped 0.8% in the Midwest. Rising prices and interest rates continue to limit the number of first-time buyers entering the market.

Builder Confidence Falls to 60

Builder confidence fell eight points to 60 in November after rising to 68 in October, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). Despite the decline, confidence remained well in positive territory. Component scores were mixed. Current sales conditions fell seven points to 67 and buyer traffic fell eight points to 45. Sales expectations for the next six months dropped 10 points to 65.

Looking at the three-month moving averages for regional HMI scores, the Northeast rose two points to 57. The Midwest dropped one point to 57, the South dropped two points to 68 and the West fell three points to 71.

Mortgage Rates Drop to 4.81%

A 30-year fixed-rate mortgage (FRM) dropped to 4.81% at the end of November after rising to 4.86% at the end of October. The 30-year FRM was 3.92% at the end of November 2017. Freddie Mac said that the recent stabilization in rates has drawn people back into the market and mortgage applications increased over the month.

POWER TOOL INDUSTRY

Stanley Black & Decker

Robert W. Baird Industrial Conference:

Last year the tool business, which CEO James Loree described as the world's largest, was about \$9 billion. This year it will be about \$10 billion.

In Loree's first six months as CEO he spent \$3 billion on acquisitions, including Craftsman, Lenox/Irwin, Nelson Fastener and MTD.

Retailers want exclusives. When they gave Lowe's exclusive rights to sell Craftsman in the home channel, they gave Home Depot the exclusive rights for Stanley and Stanley FatMax.

Household formations are well above average, and they believe they are going to continue to occur, whether in multi-family or single family. People need a little time to adjust to the sticker shock of rising rates and some rising costs, even though rates remain historically very low.

They have raised prices in concert with some of the headwinds they have encountered, including material inflation and cost inflation and now more tariffs.

The \$250 million they plan to trim off costs will be 60% to 70% people-related costs, which in addition to salaries and benefits, includes equipment, travel, services, etc. The remainder will be indirect expenses.

FlexVolt, introduced about 2 1/2 years ago, is growing in

the double digits without any significant active promotion this year.

The MTD acquisition should produce billions of dollars of growth by 2021 or 2022.

Craftsman is not really an international brand. It plays well in Canada, Mexico, the Caribbean and Northern Latin America, but is not truly international.

It's possible that if Sears goes through a true bankruptcy, SB&D could have a quarter that reflects a "fire sale" in Craftsman at Sears, but those Sears' products will not be comparable to the full line of completely redesigned Craftsman products that they have introduced.

Other News:

SB&D says they will make all plastic packaging reusable by 2025. SB&D has joined a global initiative that includes 250 other businesses and governments committing to using more sustainable packaging. Other companies that have already signed on include Target, Pepsi and Coca-Cola.

CFO Don Allan criticized the new and pending tariffs, saying that the 25% tariffs on steel, aluminum and finished goods and retaliatory tariffs by China are having a significant impact on their business. Allen was addressing an audience of manufacturing executives and other businesspeople at a conference in Trumbull. Allen said even if the tariffs are actually a negotiating tactic, they are already having a negative impact on business. He also noted that the stronger dollar is making exported goods more expensive and increasing commodity prices. Allen pointed out that SB&D, who makes and manufactures half of their products in the US, is very disadvantaged by the tariffs, where a competitor that makes all of their tools in China and ships to the US is not.

SB&D recalled Black & Decker, Bostich and Porter-Cable hammer drills and drill drivers because the side handle can slip or break, causing the operator to lose control of the tool and risking injury. SB&D is advising consumers to stop using the affected drills sold at The Home Depot, Lowe's, major home and hardware stores and online from January 2010 through July 2018 immediately. They are offering a free replacement handle.

Trimble

Q3 revenue grew 19% to \$805 million with organic growth of more than 10%, with currency subtracting less than 1% and acquisitions adding 9%. Buildings and Infrastructure delivered 7% organic growth, with continued growth in both civil construction and buildings. With acquisitions, the segment was up 36%. Trimble expects Q4 revenue between \$791 million and \$821 million and anticipates continuing improvement in both revenue and profitability in 2019.

Trimble entered a collaboration with HCSS Trimble and HCSS to tightly couple estimating and bidding workflows to field operations, driving increased jobsite productivity in today's construction environment. Trimble and HCSS are also exploring how to bring HCSS's leading software applications in construction to key markets globally. The companies plan to begin working together early next year.

Metabo

Hitachi Power Tools has officially changed its name to Metabo HPT for North America and is launching their new MultiVolt platform under the new name. The platform offers the choice of whether to operate the dozen plus tools as either corded or cordless. Current Hitachi Power Tool Products will begin to transition to Metabo HPT in January and retain their current brand identity with the same color, model numbers, warranties and battery interchangeability. Packaging and POS during the transition will feature both names and logos to make it easy for the customer to understand what is happening. Metabo HPT is based in Braselton, Georgia and is a brand within Koki Holdings America, the North American division of Koki Holdings Ltd.

RETAIL

Retail Sales Rise 0.8%

Retail sales jumped 0.8% in October after dropping a downwardly revised 0.1% in September. September sales were initially reported as rising 0.1%. Sales were up 4.6% from October 2017. Ten of thirteen categories showed increases. Core retail sales, which exclude autos, gasoline, building materials and food sales, rose 0.3% in October and core sales for September were revised down to 0.3% from the 0.5% increase first report-

ed. Both headline and core sales for August were also revised down. The Commerce Department could not isolate the impact of Hurricanes Florence and Michael on October's sales, but analysts believe the storms boosted sales of automobiles, which rose 1.1%, and building materials, which jumped 1.0%. Many economists are unsure about how the trade wars and new tariffs will impact retail sales.

Thanksgiving Weekend Sales

The National Retail Federation (NRF) reported that 165,000 consumers shopped over the long Thanksgiving holiday, spending about \$60 billion from Thanksgiving through Cyber Monday. Shoppers spent \$3.7 billion on Thanksgiving Day and another \$6.2 billion on Black Friday. Cyber Monday racked up nearly \$8 billion in sales, with about \$2 billion in purchases made through mobile devices, a 17% increase in mobile shopping from last year. However, the number of people shopping actually dropped from last year's record of 174,000. The average shopper spent \$313, down from \$335 last year, and an indication of the tough competition in retail that's fueling deep discounts and amazing deals. Amazon said they sold more than 180 million items in the four days after Thanksgiving, and said Cyber Monday was their biggest sales day ever. Older millennials and GenX shoppers each spent about \$100 more than other shoppers, and multichannel shoppers who shopped both in stores, online and on mobile devices, spent \$93 more than average, according to NRF and survey partner Prosper Insights & Analytics.

Holiday Spending Forecasts

The National Retail Federation (NRF) expects holiday retail sales in November and December to increase between 4.3% and 4.8% to a total of \$717.4 billion to \$720.9 billion. The average annual increase over the past five years has been 3.9%. Holiday sales in 2017 rose 5.3% to \$687.87 billion. Analysts say that last year the anticipated tax cuts caused consumers to spend more than expected. NRF expects annual retail sales for 2018 will grow at least 4.5% over 2017. The NRF forecast includes online and other non-store sales.

EMarketer projects that total retail sales in the US will rise 5.8% to \$1 trillion this holiday season. Retail sales between November 1 and December 31 will get a boost from Thanksgiving coming early this year, leaving 32 shopping days between Thanksgiving and Christmas.

Ecommerce sales are predicted to increase 16.6% to \$123.73 billion and account for 12.3% of all holiday retail sales. eMarketer is projecting brick-and-mortar holiday sales between \$863 and \$878 billion, and noted that while online sales are growing, brick-and-mortar still represents 87.7% of holiday sales.

A survey by payment solutions company Square found that 72% of Americans prefer to shop in person for purchases of more than \$250. According to *Chain Store Age*, 84% of shoppers prefer to support small business when they can.

The Home Depot

Q3 sales rose 5.1% to \$26.3 billion, narrowly missing analysts' estimates. Comp sales rose 5.4% in the US and were up 4.8% overall.

Q3 conference call with analysts:

Sale were strong across the entire US, with only one of their 19 regions posting negative comps. The exception was the Gulf, which faced very tough comp sales associated with the anniversary of Hurricane Harvey, which created nearly \$300 million in hurricane-related sales in the third quarter of last year. The devastation wrought by Hurricanes Florence and Michael was more geographically compact.

Both Canada and Mexico posted positive comps in local currency.

Online sales grew 28% from Q3 last year and online traffic growth was healthy. They continue to make investments and enhancements to make sure they are providing a frictionless interconnected customer experience.

Comp ticket rose 3.5% and comp transactions increased 1.2%. Comps in tools, appliances, electrical, plumbing, décor and flooring were above company averages. All other departments except lighting were above average; lighting was positive, but below average. They believe the vast majority of increases in ticket were driven by innovative products that have both consumers and Pros trading up.

Commodity prices were volatile in the quarter, with inflation in lumber, building materials and copper positively impacting average ticket growth by 61 basis points. Today lumber prices

have dropped below 2017 levels.

Foreign exchange rates negatively impacted average ticket growth by 43 basis points. Higher supply chain and transportation costs trimmed 23 basis points from gross margins.

Big ticket sales were up 9.1% in the quarter. Big ticket sales are transactions over \$1,000 and represent 20% of US sales,

They saw strong performance in many Pro-heavy categories as Pro sales grew faster than average comp. Pro-heavy categories like power tools, concrete and some plumbing and electrical categories all had comps above average.

DIY categories showed strong growth in the quarter, including safety and security, vanity, lawnmowers, ceiling fans and interior and exterior paint.

They have reduced the number of out of stocks per store by 24% in their top selling SKUS.

Several events helped drive traffic and create excitement in stores, including Halloween and Labor Day, which all showed solid growth from last year.

They are in the early stages of a five-year investment in the One Home Depot supply chain that will enable the fastest and most efficient delivery network in home improvement. Today they can reach 95% of the US population in two days or less with parcel shipping. At the end of the five years they will be able to reach 90% of the US with same day or next day delivery for an extended SKU offering that includes big and bulky goods.

They are on track with their pilot testing and learning programs from new fulfillment facilities and their first few pilot facilities are live, with more scheduled to open this year and throughout next year.

Since rolling out car and van delivery to more than 40% of the US population they have seen increased utilization from both Pro and DIY customers.

They have implemented their wayfinding sign and store refresh package in about 700 stores and are ahead of schedule. They continue to make progress on their redesigned front-end areas and pickup lockers. They are also working to help associates be more productive with their time and remove

sources of friction for customers.

They are updating their sales and earnings guidance for the year and now expect fiscal 2018 sales to grow 7.2%.

They thanked their supplier partners and said that suppliers trust them with many exclusives and innovative product launches due in part to their 400,000 plus store associates who bring enthusiasm to the aisles every day. Two recent exclusives are Stanley Hand Tools and Troy-Bilt Outdoor Power Equipment.

The tariffs that have come through to date represent 1% of US purchases; if the 25% additional tariffs were to go into effect it would impact another 3.5% of US purchases. They will work to mitigate as much as possible, but it will have an impact on prices.

Holiday décor has been a very strong business; rather than increasing décor in stores they have expanded décor online.

Only a small percentage of their associates have actually adjusted their withholding, so they think they will get a nice surprise when they file their taxes next year. 97% of their customers have an average income under \$250,000 so they don't think they will be negatively affected by the climbing tax bills people in upper brackets living in states with high local taxes like California and New York are going to experience.

Competitors closing stores and liquidating inventory have created a lot of promotional activity; they have no idea how to measure that or how it affects their numbers.

They have made a lot of improvements online. They have started doing a lot of category refreshes, have done a lot of work on searches and now they can tell people by zip code when their order will arrive. About 40% of online orders were picked up in store at the customer's choice.

The new labor model they are using has improved productivity in stores; they should see measurable benefits from the new model next year.

Lowe's

Q3 sales rose 3.8% to \$17.4 billion, beating expectations, and comp store sales rose 1.5% overall and 2.0% in the US.

Transactions declined 1%. Lowe's lowered their guidance for the year and now expects total sales to rise 4% rather than the 4.5% previously guided and comp store sales to increase 2.5% rather than the previous target of a 3% increase.

CEO Marvin Ellison said that the favorable macroenvironment and great deals drove traffic to the stores but continuing issues with inventory out of stocks, poor reset execution, and assortment concerns in certain categories kept them from converting visits to transactions. Ellison went on to say, "Rather than chase short-term solutions to these problems, we are redesigning processes and systems to deliver sustainable improvement, and expect to see positive trends as we enter 2019."

Lowe's is getting out of their contracting service, Alacrity Renovation Services and their Iris Smart Home business in the US.

Lowe's will be closing their 13 retail stores in Mexico and shuttering 51 underperforming stores in the US and Canada, moving most of the employees to nearby Lowe's stores, many of which are within 10 miles of the underperforming store. Lowe's also is opening nine stores and a new direct-fulfillment center this year. Twenty of the stores being closed are in the US; the remainder are in Canada, most of which are Rona stores. The stores are expected to be closed and associates relocated by February 1, 2019, the beginning of the company's fiscal year. Hilco Merchant Services will help with the closings.

Lowe's is also closing all 99 of their Orchard Supply Hardware stores, which they acquired about five years ago. CEO Marvin Ellison gave rival The Home Depot a nod, saying that Home Depot's best practices and their playbook are really the retail playbook, and they are going to put those things in place so they will have more efficient processes.

Q3 Conference Call with Analysts:

Their top priority during the quarter was taking the steps necessary to build a sustainable foundation for long-term success. They were difficult decisions, but they believe they will help them focus on running outstanding retail businesses in the US and Canada. They are not going to sacrifice the future to short-term results. They are being very transparent about the issues they are dealing with as a company.

They have substantially completed their strategic reassessment of the business and are now shifting attention to improving execution in retail stores and online.

They had positive comps in 11 of 14 geographic regions during the quarter, with Tampa and Houston having the weakest comps because of tough prior-year comparisons from Hurricanes Harvey and Irma.

They posted 12% comp growth on lowes.com. They know they have some issues with functionality that they are addressing, as well as issues with search, navigation and ease of checkout. Their mobile app also needs to be much more robust.

Their inefficient reset process continued to create disruption in stores and contributed to out of stocks. All of the categories with negative comps were pressured by poorly executed resets.

Their store processes are too complex, their labor management system is primitive and their associates are burdened by too many tasks that prevent them from spending enough time with customers.

Their project specialists and installed sales business is too complicated, which prevents them from delivering an outstanding customer experience and pressures sales.

The leadership team has developed strategic initiatives to address these chronic issues. With the addition of new CIO Seemantini Godbole, their world-class leadership team of core retail experts is now in place.

They undertook an aggressive clearance process for \$500,000 in inventory in the third quarter focused on eliminating slow-moving and underperforming SKUs and reducing clutter. They are now reinvesting those dollars into improving in-stock on best-selling SKUs and focusing on job-lot quantities for Pro customers.

They are streamlining the decision-making process within merchandising and shifting to managing to an inventory turnover goal rather than a dollar amount.

Throughout the fourth quarter they will showcase Craftsman and highlight exclusive products and offers, including three great values featured at \$99.

They have new plans for an integrated omnichannel holiday experience.

They are implementing a localized assortment strategy with the development, rollout and support of a field-based merchandising team.

They realized that some of the basic and foundational elements of merchandising were not in place, including in-store processes and labor scheduling systems. As part of simplifying operations they are focusing on developing processes and procedures that address the issues.

They are rebuilding their reset process by reducing their reliance on third-party labor. And they are changing their endcap and off-shelf strategies.

They've significantly reduced the volume of communications and reports going to the stores.

Inventory turnover was 3.84 times, a decrease of 10 basis points compared to Q3 last year. Their conversion issues were mostly due to being out of stock on items.

What they have been most pleased with is the people side of the business; their associates are top-notch even though the company has not always made it easy for them to do a good job.

The Pro customer is very important, but they are also "very, very simple" compared to consumers. They are looking for a great price, brands they identify with and service that saves them time, because for them time is money. According to Ellison, Pros don't really care about much of anything else. Lowe's once had a dominant share of the Pro business and lost it because they no longer delivered what Pros are looking for. They are now actively engaged in giving them those things, including the brands they want that Lowe's does not currently carry.

They do not spend much time or energy worrying about The Home Depot, which they referred to as "looking across the street." They believe if they take care of the customer, everything else will take care of itself. Their largest competitor has less than \$200 billion in market share, which means there is more than \$700 billion up for grabs in this fragmented marketplace.

Other News:

Lowe's tried to give shoppers a jump on Black Friday deals,

rolling out early specials on a wide variety of goods. GPShopper reported that 81% of consumers find shopping during the holidays very stressful and would prefer to shop earlier, with many saying they would like to shop in October and early November and be essentially done before Thanksgiving.

Lowe's snagged their new CIO from Target. Seemantini Godbole took over as CIO November 12. Godbole was senior vice president of digital and marketing technology at Target and has more than 25 years of global technology experience. CEO Marvin Ellison said she is a tremendous addition to Lowe's leadership team and will help them advance Lowe's technology into the future. She's taking over from Paul Ramsey, who had been CIO since 2014, and quietly departed over the summer. Godbole's appointment is the latest in a string of leadership changes in the C-suite since Ellison took the helm in early July.

Lowe's is stepping up their efforts to hire more veterans.

Lowe's already offers a 10% discount on veterans' purchases; Lowe's says that has saved veterans \$1 billion this year so far. Now Lowe's plans to honor their veteran employees by issuing them camouflage vests instead of the usual red vests. They already offer these employees camo name badges that show their branch of service. On Veteran's Day this year the first 100 customers at every Lowe's store got full-sized US flags with any purchase. Lowe's has several other veteran-friendly programs, and has been named a Top 10 Military Friendly Brand by military marketing firm Viqtory.

Walmart

Q3 sales rose 1.4% to \$124.9 billion and comp store sales rose 3.4%, slightly below the 4.5% increase in comp store sales in Q2. Sales were slightly below expectations. Walmart's US division had its best results in more than a decade, with customer traffic up 1.2% and transactions up 2.2%. International sales and sales at Sam's Club both fell. Online sales rose 43%, after rising 33% in the first quarter and 40% in the second quarter.

Sam's Club is preparing to open their first cashier-less location in Dallas, dubbed Sam's Club Now. It's a retail club that will double as a technology lab. The location will "incubate, test and refine technologies to help define the future of retail," according to Jamie Iannone, CEO of SamsClub.com. The 32,000

sq.ft.store is 25% smaller than the average Sam's Club and will feature an assortment of 1,000 to 2,000 of the items members buy most, including convenience items, fresh foods, grab and go meals and consumables. Members will launch the Scan & Go app and machine learning will use customer purchase data to create an electronic shopping list. Customers can add or remove items; as the merchandise is scanned, the list will automatically move chosen items to the member's mobile basket. Shoppers will navigate through voice search functionality and new way-finding and navigation features. Sam's Club plans to eventually use beacon technology and a member's smart shopping list to map out the best route through the club for shoppers. More than 90% of members who try the Scan & Go app use it again on their next trip, and app usage is up 40% this year.

Sears

Filings with the bankruptcy court show that billionaire Eddie Lampert claims that his hedge fund, ESL Investments, did not get any "windfalls or sweetheart deals" from Sears. ESL's equity stake in Sears was worth \$12 billion in 2007. That number fell to \$5 billion in 2012, and is now less than \$20 million, according to ESL. Lampert's newly-filed court papers were in response to claims by creditors that ESL was secretly enriched by various financial actions. ESL is reportedly now looking to rescue as many as 400 Sears stores from bankruptcy.

Ace Hardware

Q3 sales rose 6.3% to \$1.43 billion, fueled by new store growth, 1.8% comp sales growth and a 35% increase in ecommerce sales. During the quarter Ace added 50 new domestic stores and cancelled 24 stores. Retail revenues from Ace Retail Holdings, which is essentially the co-op owned Westlake Ace Hardware, rose 20.6% to \$79.0 million, the result of 14 new retail stores added since the third quarter of 2017. The co-op's investment in advertising also increased during the quarter. Expanded product assortments, higher inventory and increased warehouse employee turnover drove expenses up and profits down for the quarter.

W.W. Grainger

Kathleen S. Carroll becomes Grainger's new Senior Vice President and Chief Human Resources Officer (CHRO) in early December. Carroll will succeed Joseph High, who, as previously announced, retired from Grainger earlier this year. She brings more than 25 years of experience, and joined Grainger

from a senior executive position with First Midwest Bank.

Amazon

Amazon finally announced that Long Island City in Queens and Arlington, Virginia's Crystal City will both become headquarters for Amazon's HQ2, although analysts are now saying that since Amazon is splitting HQ2 into 2 and 3, perhaps they should just be looked at as regional offices. Virginia insists Amazon will be revenue positive from day one. Virginia offered Amazon \$800 million in public incentives in investments designed to boost local university curricula and the tech workforce pipeline. In return, Amazon is expected to bring a \$2.5 billion investment, 25,000 new jobs and 4 million square feet in development. The state of New York offered up a \$1.5 billion package of incentives and is already being criticized for offering Amazon hundreds of millions of dollars in tax breaks when New York City's infrastructure is badly in need of updating.

Amazon is offering free shipping with no minimum purchase to all customers in the US this holiday season for the first time. The deal will last until Amazon can no longer promise items with free delivery in time for Christmas. Target has also scrapped the minimum order for free shipping until December 22. The news will put new pressure on Walmart as so far they are sticking to their \$35 order threshold. Just over half of all US households currently subscribe to Prime, which now costs \$119 a year. Amazon will offer Prime members additional perks, including free same-day delivery on more items through the holidays.

Amazon is hiring fewer seasonal employees this holiday season. They plan to add about 100,000 temporary workers compared to the 120,000 they hired last year. Some analysts point to Amazon's increasingly automated fulfillment centers that utilize robotic systems and say that Amazon will use robots to replace those 20,000 employees. CBI Insights estimates that the robotics have helped Amazon cut fulfillment operating center costs by 20%. However, Amazon says that they have focused on more ongoing, full-time hiring in their warehouses since the last holiday season and have overall increased hiring, and points out that since they began using robotics in 2012, they have added nearly 300,000 full-time jobs globally. They are also hiring thousands of seasonal delivery drivers to supplement services provided by USPS, UPS and FedEx.

Amazon opened their Black Friday Deals Store, offering dis-

counts on a wide range of products and other perks to lure holiday shoppers.

Amazon and Apple finally came to an agreement, and Amazon will start selling and shipping all the latest Apple products with the exception of Apple's HomePod speaker, which competes directly with Amazon's Echo lineup. Amazon says third-party sellers currently selling Apple products will need to become authorized retailers; they believe this move will help cut down on counterfeiting.

Amazon is expanding their 4-star store concept, opening a second location in Lone Tree, Colorado. They opened the first store featuring products that are rated four stars and above, trending and best-sellers, in September in Manhattan's SoHo neighborhood. The 4,000-sq-ft. store features some items that the New York store does not carry, including sports and outdoor items, with about one-third of the space dedicated to consumer electronics.

Amazon is partnering with Qualcomm to put Alexa in wireless headphones which will enable the user to talk to the Alexa voice assistant by tapping a button on the headphone, similar to how users of Apple's wireless earbuds can tap the device in order to talk to Apple's virtual assistant, Siri.

Amazon has donated \$100 million to charitable organizations through the AmazonSmile program, which allows customers to support their favorite designated charity every time they shop at no extra cost. Customers can select from more than one million local and national charities as well as schools, hospitals, cultural organizations, pet shelters and much more.

CANADA SNAPSHOT

Interest Rates

The Bank of Canada (BoC) is now expected to hold interest rates steady at 1.75% at their meeting in early December, in part because of the slump in Canadian heavy crude prices. The BoC has pegged the neutral rate at between 2.5% and 3.5%, so several more increases will eventually be on the way in order to prevent the economy from overheating. However, analysts expect the BoC to pause until oil prices recover, and speculate the next increase might be postponed until March 2019.

Unemployment Falls to Record 5.6%

The unemployment rate fell to 5.6% in November after falling to 5.8% in October, according to the latest labour force survey. It was the lowest rate of unemployment since data became available in 1976. Since November 2017 employment has grown by 1.2%, or 219,000 jobs, reflecting gains in full-time work. Employment increased in six provinces, led by Quebec and Alberta, and was little changed in the four Atlantic provinces, according to Statistics Canada. Employment in construction increased by 15,000, led by gains in British Columbia and tempered by a decline in Newfoundland and Labrador.

Consumer Confidence Rises to 57.05

Consumer Confidence in Canada increased to 57.05 in November from 55.25 in October. Consumer Confidence in Canada averaged 53.44 from 2010 until 2018, reaching an all-time high of 57.05 in November of 2018 and a record low of 46.80 in February of 2016. The monthly Index of Consumer Confidence is constructed from responses to four attitudinal questions posed to a random sample of Canadian households.

Consumer Prices Rise 2.4%

The Consumer Price Index (CPI) rose 2.4% on a year-over-year basis in October after rising 2.2% in September, according to Statistics Canada. On a seasonally adjusted monthly basis, the CPI increased 0.3%, with airfares, passenger vehicles and travel tours increasing the most, although prices rose across all 12 major components. Prices for durable goods rose 0.9% and prices for services rose 2.7%. Prices rose in all provinces. Gasoline prices climbed 12% year over year in October after rising by the same percentage in September.

GDP

Canada's GDP edged down 0.1% in September, following seven consecutive months of growth. Lower output across all goods-producing industries (-0.7%) was the main reason for the decline. The output of services-producing industries edged up 0.2% as growth in most sectors more than offset declines in wholesale trade and in finance and insurance. Overall, 10 of 20 industrial sectors declined in September. The construction sector was down 0.6% in September, contracting for the fourth consecutive month. Residential construction was down for the fourth consecutive month, declining 1.0% on slower single, row

and multi-unit dwelling construction along with housing alterations and improvements. Nonresidential construction grew 0.4%, partly offsetting two months of decline, led by industrial and commercial construction. Repair construction (-0.4%) and engineering and other construction activities (-0.8%) were also down.

Housing and Construction News

Housing starts rose to 205,925 units in October after falling to a slightly upwardly revised 189,730 units in September, according to Canada Mortgage and Housing Corp. Economists had expected starts to rise to 200,000. The pace of urban starts rose by 8.6% to 191,964 units after falling to 175,653 units in September. Single-detached urban starts fell 10.7% to 46,522 units. Rural starts were estimated at a seasonally adjusted annual rate of 13,961 units. The six-month moving average of the monthly seasonally adjusted annual rates was 206,171 in October, down from 207,809 in September. The increase came despite rising interest rates and more restrictive mortgage rules. Demand is being supported by the fastest population growth in 27 years and new households being formed by millennials.

Home sales fell 1.6% in October after falling 0.4% in September and were down 3.7% compared to October 2017, according to the Canadian Real Estate Association (CREA). It marked the third consecutive month-over-month decline. Home sales moved lower in more than half of all local markets, including Vancouver, BC's Fraser Valley, Montreal, Edmonton and parts of Ontario. The declines more than offset gains in the greater Toronto area and Montreal. New listings fell 1.1% as well. Analysts noted that the markets are a long way from the highs seen in 2016 and early 2017 and expect a prolonged period of "calm" in the housing market.

Retail Sales Rise 0.2%

Retail sales edged up 0.2% to \$50.9 billion in September following a relatively flat August. The gain was led by food and beverage stores and, to a lesser extent, general merchandise stores and motor vehicle and parts dealers. Sales were down at gasoline stations and building material and garden equipment and supplies dealers. Excluding gasoline stations, retail sales rose 0.4%. Sales were up in 6 of 11 subsectors, representing 75% of retail trade. After removing the effects of price changes, retail sales in volume terms increased 0.5%.

Retail sales were up 0.9% in the third quarter following a 1.1% gain in the second quarter. In volume terms, retail sales increased 0.4% in the third quarter. Most provinces reported that wildfires negatively impacted sales, with British Columbia feeling the biggest impact. On an unadjusted basis, retail e-commerce sales totaled \$1.4 billion, representing 2.8% of total retail trade. On a year-over-year basis, retail ecommerce rose 16.9%, while total unadjusted retail sales increased 1.8%. In Canada, retail sales account for about half of all consumer spending, and are considered a proxy for overall consumer spending.

Retail Notes

Canadian Tire's Q3 revenues rose 4.4% to \$3.63 billion from \$3.27 billion and earnings per share exceeded expectations. Excluding petroleum, retail sales were up 2.6% over Q3 2017. The company said that their Triangle Rewards program has been exceptionally successful.

Canadian Tire rolled out ecommerce home deliveries nationwide but is not offering free shipping as of yet. Customers can pick up ecommerce orders for free in stores.

Canadian Tire became the first Canadian retailer to debut automated self-serve pickup towers. They've installed the 16-foot towers at five locations in Vancouver, Calgary, Saskatoon and Toronto. Customers can pick up their online purchases in less than a minute. Canadian Tire is also introducing a fleet of self-serve lockers and automated check-in terminals where customers enter a unique PIN code and staff delivers their online order directly to them.

Walmart Canada is also testing self-serve kiosks in two Canadian retail locations with plans to introduce the concept to 20 additional stores across the country by early 2019.

Home Depot Canada posted positive comps in local currency, but there are pressures from housing, as the government has made a conscious decision to slow down housing. Nevertheless, Home Depot reported that they are seeing good numbers from Canada and terrific online growth.

MARKET TRENDS

US Tech Firms Have R&D Edge

American firms invest more than \$5 in research and development for every \$1 spent by Chinese companies, according to a new report from PricewaterhouseCoopers LLP, which cataloged the top 1,000 spenders among publicly-traded companies. The Chinese excel at applications of existing technology rather than original research, according to one industry expert. However, the figures don't include private companies, which leaves out China's state-owned enterprises and closely held Huawei Technologies, the world's largest maker of telecommunications equipment, which spent more than \$13 billion on R&D last year. Among China's biggest spenders are Alibaba, which spent \$3.6 billion, compared to Amazon, which invested \$22.6 billion and Google parent Alphabet, which invested \$16.2 billion.

Automation Reshaping Job Market

A 2017 Pew survey showed that 72% of adults said they were worried about a future where robots and computers can perform human jobs. However, analysts' estimates of the percentage of human jobs at risk as well as the percentage of new jobs that will be created vary widely. Some studies claim that 23% to 44% of work hours in the US will be automated by 2030, particularly in jobs that involve high degrees of repetition. Other studies place that risk as low as 9%. Artificial assistants, virtual intelligence, self-driving vehicles, robotics and other technological advances are creating the need for a workforce with new skills, which requires coming up with ways to retrain current workers and expand opportunities. In many cases, companies are redeploying people from "back room" jobs into positions that interface with customers.

Apple Most Valuable US Brand

Apple, Google and Amazon took the top three places in the 2017 BrandZ Top 100 Most Valuable Global Brands ranking, released by WPP and Kantar Millward Brown. Microsoft and Visa rounded out the top five. The ranking combines analyzed financial data from Bloomberg and Kantar Worldpanel with opinions from more than 164,000 American consumers gathered for more than 1,500 brands in nearly 130 categories. Apple, in first place, was given a brand worth of \$316 billion based on the strength of its products combined with its services. Apart from

Amazon, only seven retailers cracked the top 50, including The Home Depot (16) and Walmart (27). Lowes was 55 and Target was 73. One of the trends noted by *Chain Store Age* was that brands with a purpose are gaining disproportional value in the eyes of consumers, with people rewarding brands for sharing their values with strong emotional attachments.

Alexa, What's the Diagnosis?

Amazon has patented technology that allows voice assistant Alexa to sense how people are feeling and recommend products for purchase. The patent describes Alexa using subtle voice cues to determine the emotional and physical states of users. Alexa would then combine those insights with age, demographic info and online browser and purchase history to select relevant content from advertisers. For example, if Alexa heard someone coughing or sniffing, she might suggest cough drops or an order of chicken soup from Panera.

Physical Store Networks Gear Up to Compete with Amazon

Walmart and Target are among the big retailers trying to make the most of the holiday shopping season by using their physical stores to offer customers appealing benefits. Walmart has added Check Out With Me, equipping store employees with portable payment systems so they can ring up customers on the spot in crowded departments like toys and electronics. The Walmart app has been updated to include new searchable store maps that will direct customers to the items they are looking for, with corresponding in-store signage to make navigating aisles easier. Target is pushing options for customers to get same-day delivery from Shipt, offering same-day pick-up in store for orders, expanding their curbside order pick-up service to 1,000 stores and rolling out deliver-to-home capabilities from stores to locations in five cities. Target is also offering free two-day shipping on all orders, some of which will be shipped from stores. Retail analysts say that unlike price promotions, these types of advances have the potential to improve store functionality and bring customers back long after the holidays are over. People may be shopping for gifts, but they are also spending money on themselves. The NRF said that self-gifting during the holidays rose 44% last year.

Retailers Urged Not to Be Boring

The kickoff presentation at the third-annual Home Improve-

ment eRetailer Summit in Chicago was titled "Really Bad Time to be Boring: Reinventing Retail in the Age of Amazon." The presentation focused on the waves of disruption that are rolling through the industry, and noted that the waves will likely intensify; the key is "learning to surf." Companies must work hard at keeping their eyes and ears open to trends and do a better job of understanding what their customers want, as well as what they can deliver to attract people currently not doing business with them. The home improvement industry is currently in the early stages of conversion to online sales, with NPD research estimating a 17% penetration, behind consumer electronics, appliances, footwear and other sectors. But on a dollar-percent growth vs. one year ago, home improvement is at the top of the list at 26%. Among home improvement categories, the specific leaders in online sales are air filters, area rugs, blinds, plumbing and storage, according to the NPD Group. Retailers were also urged to embrace change and go with the flow. For example, the term omnichannel, which for the past few years has been the way retailers refer to their quest to offer their customers multiple ways to shop, is being replaced by terms like "continuous retail," as multiple channels for purchasing become more mainstream. The 4th annual Home Improvement eRetailer Summit will be held next November in Chicago. The article also noted that the presentations at this event were very polished, and there were no tech difficulties.

Cracking Down on Gift Cards

Walmart, Target and Best Buy are among the retailers who are putting new limits on their store gift cards after a rash of incidents in which scammers used the cards to swindle victims. The new restrictions include capping how much money can be loaded onto gift cards or spent with them and blocking their use to buy third-party gift cards. Scam artists trick victims into putting large sums of money onto a store gift card and then giving up the code number, which the scammer uses to buy up third-party cards like iTunes or Google Play which can then be resold on the black market.

Target Incubator Wants to Make the World a Better Place

Target's Incubator is in search of a product, service, technology or even a new business model that benefits people or the planet. The program is aimed at Gen Z entrepreneurs. Candidates applied in October; following a round of interviews, eight companies will be chosen in early December to receive a

\$10,000 stipend from Target. Two members from each company will relocate to Target's Minneapolis headquarters for eight weeks from June through August to work with mentors from Target and other businesses as well as attend tailored workshops, learning sessions and team-building events. The Incubator is the newest program from Target's accelerator portfolio, which also includes Target + Techstars.