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Bosch | Dremel
RotoZip | Vermont American
CST/berger | freud | Sia

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US ECONOMY

Exchange Rates March 30, 2018

Euro	1 Euro = \$1.231	\$1.00 = 0.812 Euros
Canadian Dollar	1 CAD = \$0.775	\$1.00 = 1.289 CAD
Japanese Yen	1 Yen = \$0.009	\$1.00 = 106.218 Yen
Chinese Yuan	1 Yuan = \$0.159	\$1.00 = 6.284 Yuan
Mexican Peso	1 Peso = \$0.055	\$1.00 = 18.168 Pesos

Market Watch March 29, 2018

DOW	24,103	- 3.7%
NASDAQ	7,063	- 2.9%
S&P 500	2,641	- 2.7%

All three indexes finished the month of March with losses as market volatility continued, fueled by worries of a trade war with China. Both the DOW and the S&P also finished the first quarter in the red, ending a 9-quarter winning streak. For the first quarter, the DOW fell 2.5%, the NASDAQ rose 2.3% and the S&P, the index most closely followed by economists, fell 1.2%.

Consumer Confidence Falls to 127.7

The New York-based Conference Board's Consumer Confidence Index fell to 127.7 in March after rising to a slightly downwardly revised 130.0 in February. The Present Situation Index dropped to 159.9 from a downwardly revised 161.2 in February. The Expectations Index also fell, dropping to 106.2 from a slightly downwardly revised 109.2. Consumer confidence reached an 18-year high in February, but declined modestly in March, partially due to the extreme volatility that continued in the stock market. Consumers remain generally confident that the economy will continue to expand over the coming months. 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 0.2%

Consumer spending grew 0.2% in February after rising by

the same amount in January and was up 1.8% year over year. Personal incomes rose 0.4% for the third consecutive month. The savings rate increased to 3.4% from 3.2% in February. The core PCE price index rose 0.2% in February after rising 0.3% in January and was up 1.5% from January 2017. The Fed's preferred inflation measure has undershot its target of 2% since May 2012.

Consumer Prices Rise 0.2%

The Consumer Price Index (CPI) jumped rose 0.2% in February after jumping 0.5% in January. The CPI was up 2.2% over the past twelve months. Core inflation, which excludes food and energy, rose 0.2% in February after rising 0.3% in January and was up 1.8% from February 2017. Core inflation has consistently been below the Fed's target of 2%. Gains in the CPI were tempered by a fallback in energy costs as gasoline prices fell 2.7%. However, recent job reports and increases in producer prices in the pipeline suggest that inflation could be inching closer to the Fed's target.

Unemployment Remains at 4.1%

The unemployment rate remained at a 17-year low of 4.1% for the third consecutive month, but the economy added just 103,000 new jobs, the smallest increase since last fall and well below forecasts of 170,000 new jobs. The pace of hiring was expected to slow in March after the economy gained more than 300,000 new jobs in February. The tight labor market is slowly pushing up wages. Hourly wages rose 8 cents, or 0.3%, to \$26.82 and the 12-month increase in pay rose to 2.7% from 2.6%. The largest job gains took place in manufacturing, health care and white-collar businesses. Retailers lost 4,000 jobs in March after adding 47,000 in February, but retail employment has shown little net change over the year. Construction lost 15,000 jobs in March after adding more than 65,000 in February.

Durable Goods Orders Rise 3.1%

Durable goods orders rose 3.1% in February after dropping an upwardly revised 3.5% in January. It was the biggest gain in durable goods orders since last summer, and well ahead of economists' expectations. Orders for non-defense capital goods excluding aircraft, a closely watched proxy for business spending plans, rose 1.8% in February after dropping a downwardly revised 0.4% in January and were up 7.4% year over year. It

was the biggest gain in five months. Shipments of core capital goods, which factor into GDP, increased 1.4% in February after rising an upwardly revised 0.1% in January. Economists expressed fears that a trade war could negatively impact future orders. The durable goods report is volatile and often subject to sharp revisions.

Chicago PMI Falls to 57.4

The Chicago Purchasing Managers' Index (PMI) fell to 57.4 in March after falling to 61.9 in February. It was the third consecutive monthly decline for the index and the lowest reading for the PMI in the past year. The PMI was up just 0.5% from March 2017. Three of the five components fell for the month, with only Employment and Supplier Deliveries expanding. The Production indicator sank to the lowest level since October 2016 and the New Orders indicator dropped to a level not seen in more than a year. The two indicators, which account for about two-thirds of the overall reading, have fallen 28% and 19% since their respective December highs. The Prices Paid indicator picked up enough in March to be at the highest level since the third quarter of 2011. Most firms expect orders to grow in the second quarter.

Wholesale Prices Rise 0.2%

The Producer Price Index (PPI) rose 0.2% in February after rising 0.4% in January, continuing the upward climb in producer prices that has been going on since August 2016. Core producer prices, which exclude food, energy and trade services, rose 0.4% in February after rising by the same percentage in January. Core prices were up 2.7% compared to February 2017. That's the biggest year-over-year gain in core prices since 2014. The PPI for inputs to construction was up 5.2% year over year. Lumber and plywood was up 4.4% for the month and 13% for the year. While inflation has definitely picked up, analysts say it is doing so at a manageable pace that is not likely to alter the Fed's methodical plan for small increases in interest rates.

Q4 GDP Revised Up to 2.9% Growth

GDP grew an upwardly revised 2.9% in the fourth quarter, up from the second estimate of 2.5% growth. The latest reading also contained the government's first broad estimate of profits at US companies in the fourth quarter. After-tax profits, without inventory valuation and capital consumption adjustments,

dropped 9.6% from the third quarter and were down 6.0% from Q4 last year. The Commerce Department said that the weak reading may have reflected one-time provisions that took effect in the fourth quarter. Consumer spending rose at a 4.0% annual rate in the fourth quarter, revised up from a previous estimate of 3.8% growth and the strongest quarterly reading in three years. Business investment remained solid, with fixed nonresidential investment rising 6.8% and spending on equipment up 11.6%. Both net exports and inventories subtracted from overall GDP growth.

Job Openings Rise

There were 645,000 new job openings in January, for a total of 6.3 million openings, a new high. Job openings had fallen to 5.8 million in December, bringing the openings rate to 4.1%. Construction had 101,000 new job openings. The number of openings increased in all regions except the Northeast. Hires and separations were little changed at 5.6 million and 5.4 million, respectively. Within separations, the quits rate and the layoffs and discharges rate remained at 2.2% and 1.2%, respectively. There were 1.8 million layoffs and discharges in January, also little changed from December. Separations increased in retail trade. The quits rate is considered a measure of confidence in the job market, and has been steadily rising since hitting a low of 1.3% in late 2009. Rising job turnover should eventually lead to accelerated wage growth, which economists say will help push inflation towards the Fed's target of 2%. The JOLTS report is one of the Fed's preferred economic indicators.

Fed Raises Rates

The Federal Reserve raised rates in March by a quarter of a percentage point to between 1.5% to 1.75%. The increase, which was the sixth since 2015, was widely expected. The Fed is still forecasting two more rate increases this year, but increased the number of hikes it expects in 2019 and 2020, and now sees a total of eight quarter-point hikes through the end of 2020, including the three increases expected this year. That means by the end of 2020 rates would be around 3.5%. The Fed based its optimistic projections on a strengthening economic outlook and greater confidence that lower unemployment won't trigger inflation. The Fed estimates that the increase in core prices will rise above the target of 2% in 2019 and 2020, although it will only rise to 2.1%.

HOUSING & CONSTRUCTION

Housing Starts Fall 7.0%

Housing starts fell 7.0% in February to a seasonally adjusted annual rate of 1.24 million units after rising to 1.33 million units in January. **Single-family starts rose 2.9%** to a seasonally adjusted annual rate of 902,000 units after rising to 877,000 units in January. Multifamily starts fell 26.1% to a seasonally adjusted annual rate of 334,000 units after jumping to 449,000 units in January. Multifamily data tends to be particularly volatile on a month-to-month basis. NAHB expects single-family starts to rise 5% this year; multifamily starts are expected to fall slightly. **Regional starts were mixed.** Starts rose 7.6% in the Midwest, but fell 3.5% in the Northeast, 7.3% in the South and 12.9% in the West.

Building Permits Fall 5.7%

Overall building permit issuance fell 5.7% in February to a seasonally adjusted annual rate of 1.3 million units. Multifamily permits fell 14.8% to 426,000 units. **Single-family permits edged down 0.6%** to 872,000 units. **Regional permit issuance was mixed.** Permits rose 12.7% in the Northeast and 3.4% in the Midwest. Permits dropped 3.4% in the West and 12.4% in the South.

New-Home Sales Fall 0.6%

Sales of newly built, single-family homes fell 0.6% in February to a seasonally adjusted annual rate of 618,000 units after falling to an upwardly revised 622,000 units in January. It was the third consecutive month new home sales have dropped, but sales were still up 2.2% from February 2017. The inventory of homes for sale at the end of February rose to 305,000 units, which is the most since March 2009 and a 5.9-months supply at the current sales pace. However, all of the increase came from homes not yet started or under construction. Inventories of completed homes remain exceptionally lean at just 68,000. **Regional sales were mixed.** Sales jumped 19.4% in the Northeast and 9% in the South. Sales fell 4% in the Midwest and 18% in the West. With strong consumer demand for housing, the NAHB expects sales to move forward in the months ahead. 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 3.0%

Total existing home sales rose 3.0% in February to a seasonally adjusted annual rate of 5.54 million after falling to 5.38 million in January. Sales were 1.1% above February 2017. **Single-family home sales rose 4.2%** to a seasonally adjusted annual rate of 4.96 million after dropping to 4.76 million in January and were 1.8% ahead of sales a year ago. Total housing inventory rose 4.6% to 1.59 million existing homes available for sale, which is 8.1% lower than February 2017. Unsold inventory has fallen year-over-year for 33 consecutive months and is at a 3.4-months supply at the current sales pace, down from 3.8 months a year ago. **Regional sales were mixed.** Sales fell 12.3% in the Northeast and 2.4% in the Midwest. Sales rose 6.6% in the South and 11.4% in the West. The NAR says that sales may have fallen in March due to very inclement weather in much of the country.

Builder Confidence Drops to 70

Builder confidence dropped one point to 70 in March from a downwardly revised reading of 71 in February, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). The component scores were mixed, with the index measuring current sales conditions holding steady at 77, the component measuring sales expectations in the next six months dropping two points to 78 and the index gauging buyer traffic falling three points to 51. Looking at the three-month moving averages for regional HMI scores, the Northeast rose one point to 57, the South dropped one point to 73, the West fell two points to 79 and the Midwest dropped four points to 68. NAHB Chief Economist Robert Dietz said that with low unemployment, favorable demographic trends and tight inventory, they expect to see builder confidence continue to rise in 2018, although builders continue to face scarcities of labor and increases in building materials prices.

Mortgage Rates Steady

A 30-year fixed-rate mortgage (FRM) remained at 4.4% at the end of March, breaking a stretch of three consecutive monthly increases. At the end of March last year 30-year rates averaged 4.74%.

POWER TOOL INDUSTRY

Stanley Black & Decker

From the Raymond James Investors Conference:

Today the Tools & Storage business makes up almost 75% of the company and produces about \$9 billion in revenue.

They noted that their stock has produced almost an 800% return since the turn of the century compared to 394% by their peer group, and 150% by the S&P.

They are expanding their operating margin rate by between 30 and 50 basis points per year and have very strong free cash flow conversion. Over the long term they reinvest 50% of cash flow back into mergers and acquisitions (M&A).

They expect very good organic growth in the Tools & Storage business for the next 3 to 5, potentially next 10, years. Growth will be driven by their acquisition of the Craftsman brand and their partnerships with Lowe's and Amazon.

They started to experience commodity inflation in the spring and summer of last year and ended up with about \$80 million last year. They are expecting \$150 million this year. They are executing "surgically focused" price actions with many of their customers in certain product categories and families where they think it is appropriate. The two biggest categories they are seeing inflation in are steel and lithium ion battery cells. Price increases will start to go into effect in the second quarter of this year and be rolled out in the back half. They think they can offset about 60% of the commodity inflation in 2018 with price increases.

They are still in the planning phase with Lowe's and working through the number of stores that will be rolled out in 2018 versus 2019, and also planning what type of promotional activity they can do with the stores that don't get the full rollout.

When they introduce Craftsman to Lowe's they'll be removing some of their other branded products, which will produce a degree of cannibalization. They are still projecting \$100 million per year and \$1 billion over ten years in net incremental growth.

They believe there is going to be a supply-demand dynamic around lithium for at least the next three years. There are more players getting into the category and different types of cells, and the demand for the high-quality ones is intense right now.

They continue to evaluate other potential new battery technologies whether that means a different type of lithium cell or a different type of power source.

TTI/Techtronic Industries

TTI/Techtronic industries reported that 2017 sales grew 10.6% to \$6 billion. The power equipment business, which accounts for nearly 85% of total sales, saw sales grow nearly 15% to \$5.1 billion. TTI/Techtronic is the parent company of Milwaukee Tool and Ryobi. Their brand portfolio includes AEG, Homelite, Hoover, Oreck, Vax and Dirt Devil.

From their FY 2017 Conference Call:

They have had eight consecutive years of revenue growth and nine consecutive years of margin improvement.

Milwaukee delivered more than 21% growth. The momentum of Ryobi ONE+ remained very strong, delivering double-digit growth.

Sales for the Power Equipment division grew 14.9% in North America and 13.8% in the challenging European market. North America accounted for 76.3% of the group's revenue.

For ten consecutive years their sales have grown faster than their headcount. Last year in the US they hired more than 800 people.

CEO Joe Galli described the company as the "Silicon Valley of power tools." They do not need to acquire other companies in order to make their numbers or projections. They are focused on organic growth.

They love residential construction, but it is not the driver of their company, and if the residential market collapsed, it would not change their expectations.

Their brushless motor technology, FUEL, has been a spectacular success. They want to have a new generation of FUEL every 18 to 24 months, and are taking the same approach as Apple takes with iPhone.

They have launched a brand new category, drain cleaning, and expect to disrupt the industry globally with their range of cordless products.

They are committed to having the world's broadest line of professional cordless lithium power tools, and are planning on introducing many new items to the Milwaukee M18 line this year.

They believe tool storage is another enormous category that they have just begun to participate in with their rollout of a new line called PACKOUT in the US and Europe over the past six months.

They are also entering the data communications installations space with a new line of hand tools for electricians who install data communications for both residential and commercial customers. They are doing the hand tools first, then will do cordless hand tools and power assisted hand tools and expect to revolutionize the category.

The Ryobi brand is now the number one brand in the world for DIY, having taken that spot from Black & Decker. They will launch a series of new Ryobi ONE+ cordless products this year.

Other News:

TTI is expanding their Power Equipment Group's operations in Anderson County, South Carolina. TTI is building a new 300,000-square-foot Corporate Innovation Center at its facility at 1428 Pearman Dairy Road in Anderson. The \$75 million expansion is expected to create 250 jobs.

Hitachi Power Tools

Hitachi Power Tools announced that the company is changing their name to Metabo HPT. Hitachi Koki purchased Metabo in a deal valued at about \$180 million in late 2015. The Hitachi Power Tools name is being replaced with HiKoki in Europe, and the parent company, Hitachi Koki/Koki Holdings, decided that there needed to be a change in North America as well. After significant research, the company decided that the

new name needed to be aligned with a known name, and since the company already owned Metabo, they went with that. They say they are not merging Metabo and Hitachi; according to the company the two brands will remain separate. Products will retain their current brand identity with the same color, model numbers, warranties and battery interchangeability. The transition to the new name and logo will happen over the next 24 months.

RETAIL

Retail Sales Fall 0.1%

Retail sales fell 0.1% in February after falling an upwardly revised 0.1% in January. Sales were up 4.0% from February 2016. Core retail sales, which exclude autos, gasoline, building materials and food sales, rose 0.1% in February after being flat in January. Both retail sales overall and core sales were below economists' expectations. Many economists continue to expect that the higher take-home pay that resulted from President Trump's tax cuts, will cause consumer spending to rise in the coming months. Spending at online and catalog retailers rose 1.0% and spending at building materials stores was up 1.9%.

The Home Depot

THD is expanding their partnership with Pinterest's visual discovery feature, Shop the Look, with more than 100,000 new shoppable home décor products, including vanities, faucets, lighting, textiles, tabletop and interior décor. To shop the look, users tap the circle on a product to see similar, shoppable items. Earlier this year THD launched a video campaign, "Built in Pins," to illustrate that inspiration is often found on Pinterest.

The U.S. District Court dismissed a lawsuit claiming that The Home Depot was confusing customers by labeling dimensional lumber as 4x4 when a 4x4 does not measure that in inches. The judge ruled that the label did not include a unit of measurement and was therefore not explicitly incorrect. Home Depot said that a ruling for the plaintiff would be ignoring nearly a century of standardization and disturb an entire industry's reliance on common lumber names.

The Home Depot Foundation announced a \$50 million commitment to train 20,000 tradespeople over the next 10 years in order to help fill the growing gap in skilled labor. The Home Depot Foundation previously committed \$250 million since 2011 to veteran housing. Last year the Home Depot Foundation partnered with the Home Builders Institute to launch a pilot training program for separating military personnel. The first set of students graduated in February.

Lowe's

CEO Robert Niblock will be retiring when a successor is found. The board has formed a six-person committee to find a successor. Niblock has been at Lowe's for 25 years, and has been CEO since January 2005. Lowe's sales have risen 88% since then to \$68.62 billion and Lowe's stock has more than tripled, but rival The Home Depot has outperformed Lowe's for the past several years. Niblock's departure follows the retirements of CFO Robert Hull and COO Rick Damron over the past year. Insiders have been forecasting Niblock's retirement since some activist members joined Lowe's board of directors, including David Batchelder, credited with helping to turn The Home Depot around.

Lowe's says they are improving operations in the wake of quarterly results that were below their expectations, and stressed they are determined to produce results. CEO Robert Niblock said that they need to make incremental investments that will insure that they convert traffic into transactions.

Walmart

Walmart's new Scan & Go technology is getting rave reviews from customers, who reportedly love the new system that allows them to use handheld scanners to scan items and then just check out at self-service counters at the front of the store. Customers using their mobile devices can bypass the checkout stand altogether and pay using the app.

Walmart will expand their online grocery delivery option from six metro areas to more than 100 markets by the end of the year. The markets reportedly contain more than 40% of US households. No subscription is required, and customers can get their first order delivered for free using a special promo code.

Forecasting container allocations has been very manual and time-intensive for Walmart and stressful for their suppli-

ers, who according to Walmart often felt as if they were trying to hit a moving target. Now Walmart is using a new tool that provides a rolling 12-week forecast of expected allocations to various carriers that is updated weekly, which has helped them secure capacity. Expeditors, who developed the tool, now called Carrier Allocation, said it took five years to perfect.

Sam's Club will offer home delivery through Instacart in some markets. The delivery plan is part of a strategic shift by Sam's new CEO, John Furner, who is attempting to turnaround Sam's and make it more competitive with both parent company Walmart and rival Costco.

Sears

Q4 revenue dropped to \$4.4 billion from \$6.1 billion in Q4 2016, but still beat analysts' expectations. Comp store sales for Q4 fell 15.6%, also better than expectations. Sears comp store sales dropped 18.1% and Kmart comp sales fell 12.2%. Sears said that store closures contributed to more than half of the revenue decline for the quarter.

CEO Eddie Lampert said that Sears made progress last year and will continue to build on that progress, looking to close unprofitable stores and to unlock the value in their assets, which most analysts view as an intention to liquidate cash-rich assets such as the Home Services division.

Sears will be closing 64 Kmart stores and 39 Sears stores by the end of April.

Sears has secured a \$440 million loan to use for a \$407 million payment into their pension plan that provides for the release of 138 of their properties, which alone have an appraised value of nearly \$980 million.

ACE Hardware

Ace Hardware has entered into an exclusive paint partnership in the home improvement category with Magnolia Home by Joanna Gaines Paint, the brand's first paint partnership with a co-op. The paint line is available on acehardware.com and in nearly 500 Ace stores nationwide.

True Value

True Value announced a deal with private equity firm ACON that will return \$229 million to True Value retailers. Under

the deal, True Value retailers will retain 30% of the company. True Value says the deal will accelerate the transformation of the True Value business and convert the structure of the company from a co-op selling products to their member owners into a distributor selling products to any and all customers. ACON will make a strategic investment in the new True Value operating company. There will no longer be a requirement to purchase stock to be able to purchase products from True Value, which will free up members' and customers' capital.

Amazon

The rumor mill thinks that Atlanta may get the nod as the home of Amazon's HQ2, because Amazon's booming Amazon Web Services (AWS) division is trying to hire a senior executive based in Atlanta. Georgia is said to have offered more than \$1 billion in incentives and infrastructure improvements to Amazon.

Amazon plans to grow their Seattle headquarters to almost 14 million square feet of office space, an addition of more than 2 million square feet.

Amazon is talking to JPMorgan Chase and Capital One about offering Amazon's millions of millennial customers a product similar to a checking account that would reportedly be structured to meet their needs.

A court in Munich, Germany ruled that Amazon's instant-order Dash Button violates the German Civil Code. The code mandates that consumers must be provided with information on the price and type of products purchased when customers place orders with the Dash Button. Amazon plans to appeal.

Amazon CEO Jeff Bezos is now officially the world's richest man, according to *Forbes* magazine's annual list of billionaires. They calculated his fortune, which is mostly in Amazon shares, at \$112 billion dollars. Bezos displaced Microsoft co-founder Bill Gates, who has topped the list for 18 of the past 24 years. The number of women on the list increased from 227 to 256, with a record 72 of the women having made their own fortunes.

Amazon bought Ring, maker of a popular line of video doorbells. Ring will become the 11th smart home product under Amazon's umbrella with either a built-in camera or micro-

phone. Analysts say the acquisition could give Amazon a leg up in the increasingly competitive race to own more of the smart home market.

Amazon is planning a small business customer credit card, and has reportedly been talking to JPMorgan Chase about issuing the co-branded card. The card will feature a rewards points system for purchases, with the option of adding offerings such as business insurance and other tailored rewards. Amazon already offers two consumer credit cards, one with JPMorgan. Amazon Lending lent more than \$1 billion to small businesses between 2016 and 2017.

Amazon will no longer sell Nest's Secure home security system and thermostat, among other products. According to sources, the directive came from CEO Jeff Bezos. Nest is part of Google's hardware division.

Amazon has patented on-demand personal assistant technology that would allow people who need help to crowdsource a wide variety of errands and tasks that a personal assistant would typically perform. Tasks could include picking up and delivering dry cleaning, coming and taking a family photo or picking up a pizza. Task performers would be registered and matched to needs using a system similar to Uber. Amazon applied for the patent in 2006, but it was just recently granted.

CANADA SNAPSHOT

GDP Falls 0.1%

The Canadian economy shrank in January, with GDP falling 0.1%, according to Statistics Canada. Results were below economists' expectations of 0.1% growth. It was the largest decline since May 2016. The drop was driven by a 3.6% decline in oil and gas extraction as well as falling real estate activity as new mortgage qualification rules kicked in. Construction spending rose 0.5% as builders continued to ramp up home construction; wholesale and retail trade also rose in January. A sharp drop off in Canadian economic growth is expected this year as households with high debt levels trim spending. The federal budget for 2018 projects 2.2% growth this year and 1.6% growth in 2019. Economists say there are a host of downside

risks to the Canadian economy from abroad, particularly US trade and tax policy.

Canadian Economy Expected to Slow

RBC Economics projects that the Canadian economy will slow in 2018 amid the prospects of rising interest rates and lower consumer spending. GDP growth is expected to slow from 3.0% in 2017 to 1.9% this year and 1.6% in 2019. The Royal Bank of Canada (RBC) forecasts improving demand-supply conditions this year for the housing market, with more balanced house prices. The projected price increases will drop from 11.1% last year to 2.2% this year. As a result, housing sales are expected to soften this year. The Canadian dollar appreciated throughout 2017, but will be pressured this year by economic uncertainty. RBC expects the CAD to hover at 78 US cents early this year before strengthening to 82 cents by the end of the year. Canada's oil-producing provinces will face significant budgetary shortfalls, while Ontario is expected to grow 2.0% this year before settling into the national average of 1.6% growth in 2019. Saskatchewan is forecast to lead all provinces, with 2.9% growth in 2018 and 2.5% in 2019.

Unemployment Remains at 5.8%

Canada's unemployment rate remained at 5.8% in March and the Canadian economy added 32,000 new jobs after adding 15,000 jobs in February. Total employment is up by 296,000 since March 2017. Employment was up in Quebec and Saskatchewan, but there was little change in other provinces. Construction added jobs 18,000 in March and the industry has added 54,000 jobs since March 2017. In the first quarter of 2018, employment dropped by 40,000 jobs due to the decrease in January. Over the longer term, employment has been on an upward trend since the second half of 2016. Most of the job gains were full-time jobs.

Consumer Confidence Rises to 55.72

Consumer Confidence in Canada increased to 55.72 in February from 55.12 in January, according to The Conference Board of Canada's Index of Consumer Confidence. Consumer confidence in Canada averaged 53.27 from 2010 until 2018, reaching an all-time high of 56.40 in August of 2014 and a record low of 46.80 in February of 2016. The monthly Index of Consumer Confidence is based on responses to four attitudinal questions posed to a random sample of Canadian households.

Consumer Prices Rise 2.2%

The consumer price index (CPI) rose 2.2% in February on a year-over-year basis after rising 1.7% in January, according to Statistics Canada. All eight categories rose on a year-over-year basis, with six of the eight growing at a faster rate in February than in January. Energy products were once again the main driver of inflation, but core inflation rose by 1.8% year over year, which was the highest level since the summer of 2016. Inflation has now risen over the Bank of Canada's (BoC) target of 2% but the consumer sector is lagging. Analysts expect the BoC to tolerate above-target inflation for a period of time rather than risk economic growth stalling by raising rates quickly. One more rate increase is expected this year, but not until July at the earliest.

Canada U.S. Trade Updates

Members of the Trump administration have recently hinted that withdrawing from NAFTA is not in their current plans.

A congressional gathering heard Treasury Secretary Steven Mnuchin express some optimism about getting a deal based on ongoing meetings. Mnuchin said "It is a major priority of ours to renegotiate the deal." Canadian minister Justin Trudeau also struck a cooperative tone during an address he made in mid-February in California, saying that both the US and Canada benefit greatly from NAFTA.

Housing and Construction News

Canadian housing starts dropped slightly in January to a still-strong 216,210 seasonally adjusted annual units, according to Canada Mortgage and Housing Corp (CMHC). Economists had expected starts to drop to 210,000 units. Last year was a strong year for housing, but the pace of growth is expected to slow this year. Nevertheless, the six-month trend in starts in January remained near the 10-year high set in December. BMO Capital Markets is still expecting a solid 200,000-plus level of starts this year. Economists are also unsure of how tighter mortgages rules that took effect this year and the three interest rate increases that have been enacted since last July are going to affect consumers. Multiple urban starts, which are generally apartment buildings, townhouses and condominiums, essentially held steady at 134,685 units in January while single-detached urban starts increased by 0.6% to 63,715 units. Rural starts were estimated at a seasonally adjusted annual rate of 17,810 units. There were some significant movements on a regional basis, with the largest gains concentrated in Ontario, where

multifamily starts are soaring. Saskatchewan and Alberta also experienced good gains, due to high levels of building activity in Regina and recoveries in Edmonton and Calgary. Separate data from Statistics Canada showed new home prices were unchanged in December.

The number of home sales declined 6.5% in February and sales volume dropped 16.9%. Average home price fell 5%. The number of homes sold nationally hit a record high in December as people tried to get ahead of new mortgage qualification rules that went into effect in January. The Royal Bank of Canada (RBC) also raised interest rates to 1.25% in January, further dampening demand. The stricter residential mortgage lending regulations require that borrowers must be able to afford interest rates that are two percentage points above the contracted rate of the RBC's five-year benchmark rate, which ever is higher.

Retail Sales Rise 0.3%

Retail sales bounced back, rising 0.3% in January after falling 0.8% in December 2017, according to Statistics Canada. Sales were up 0.9% from January 2017. Sales at general merchandise stores rose 2.3% after falling 5.3% in December. Sales for furniture and home furnishings rose 3.4%. Retail sales increased in six Canadian provinces in January, with Ontario posting the largest gain in dollar terms at 1.2%. Total retail trade in current dollars rose to \$49.9 billion after falling to \$49.6 billion in December 2017. In Canada, retail sales account for about half of all consumer spending, and are considered a proxy for overall consumer spending.

Canada Retail Notes

Walmart Canada is launching fresh grocery delivery from online orders in Vancouver. Walmart began delivering groceries to the Toronto area last year. The Vancouver deliveries will be made through Food-X Urban Delivery. In Toronto Walmart uses crowd sourced delivery companies.

MARKET TRENDS

Electricians in Demand

Klein Tools annual State of the Industry survey shows that electricians are in demand, and are working on more smart technology than ever. More than 40% report that they are working more than they were a year ago, with work in new home construction, commercial properties, office buildings and retrofitting for homes all on the rise. The biggest change is the widespread increase of high-tech installations. While tech is increasing in residential work, high-tech installations remain more prevalent in commercial settings. Electricians with tech know how are in demand, with 56% of electricians seeing an increase in the amount of high tech work they are doing. Three in five have done more installations in commercial buildings and seven in ten have seen more smart offices than five years ago. Fewer than one-fifth are concerned that technology will impact their job security. More than 600 union and non-union electricians were surveyed by Russell Research for the annual study. Overall 40% of respondents were union and 60% were not.

Voice Shopping to Grow

Voice shopping sales could reach \$40 billion by 2022, according to a new study from OC&C Strategy Consultants and a comprehensive news story in *USA Today*. Purchases made through devices like Google Home and Amazon's Echo account for about \$2 billion in sales today. Analysts see this growing exponentially as consumers become more comfortable and speakers become as commonplace in homes as flat-screen TVs are today. Among US residents who have a smart speaker, 62% have used it to buy groceries or some other item. The report predicts that the percentage of homes with a smart speaker will rise from the current 13% to 55% by 2022. Amazon Echo currently has the lion's share of the smart home speaker market, followed by Google and Microsoft's Cortana. Echo owners reportedly spend an average of \$1,700 each year at Amazon, members of Amazon Prime spend about \$1,300 a year and the average for all US Amazon customers is \$1,000 a year.

Walmart's New Customers

Walmart is trying to attract wealthier people who like to shop online and may never actually shop in a physical

store. Walmart has been increasing their digital presence with a series of acquisitions, buying online retailer Jet for \$3.3 billion in 2016 and purchasing specialty online retailers ModCloth, Bonobos and Moosejaw, as well as acquiring Parcel, a logistics startup that allows Walmart to offer same-day delivery for online purchases in New York. Walmart is also testing a program with smart-lock company August Home that would let people order food from Walmart and have the delivery people put it away in the customer's home. And most recently Walmart discontinued some long-time lines of clothing and unveiled four lines of private-label apparel.

Retail Customer Satisfaction

The American Customer Satisfaction Index Retail Report 2017 shows the retail sector as a whole is holding steady with a satisfaction score of 78.1, down just a bit from 78.3 in 2016. However, supermarkets and health and personal care stores gained points, while department, discount and specialty retailers fell. Internet retail sites also fell one point to a score of 82, still higher than the sector's score overall. In specialty retailers, Lowe's earned a score of 78 and Home Depot was scored at 76.

Personalization Tactics Can Backfire

Some 40% of brands and 75% of consumers surveyed felt that personalization in marketing can come across as invasive and "creepy." However, consumers and brands differed when surveyed about the potential impact of a negative experience with personalization. Brands were more likely to assume consumers would be frustrated (44% of brands vs. 34% of consumers) and disappointed (38% of brands vs. 20% of consumers), while consumers were more likely to say they were angry (23% of consumers vs. 12% of brands) or stopped doing business with a company (26% of consumers vs. 6% of brands). One Accenture study estimated that poor personalization and the resulting lack of trust in the brand has caused 41% of consumers to stop doing business with a company, leading to an estimated \$756 billion in lost sales.

Millennials Moving into Housing

Last year millennials accounted for 36% of US home purchases, more than any other group, according to the National Association of Realtors. Baby boomers were second, accounting for 32% of purchases. Industry analysts say that sales to

millennials would be even higher if there were more affordable properties available for first-time buyers. The NAR study found that a typical millennial buyer had a household income of \$88,200 and purchased a house with a median price of \$220,000. Almost half also reported student debt, with a median loan balance of \$25,000. First-time homebuyers accounted for 34% of all home purchases in 2017, down from 35% in 2016. In 2010 they accounted for half of all home sales. Sixty-five percent of homebuyers said they were married couples, and 37% had children under age 18 living at home. The average home was 1,870 square feet and had three bedrooms and two bathrooms. Recent buyers said they expect to live in their home for a median of 15 years, with 18% planning to never move again. About 40% of buyers had been renting an apartment or home; 12% had been living with family or friends.

Google Partners with Retailers

Google is teaming up with retailers in an initiative called Shopping Actions that influences shoppers' purchasing decisions on cell phones, desktops and smart home devices by offering up listings that appear as sponsored shopping results. It uses a pay-per-sale model, with Google taking a portion of each purchase that stems from a search referral. The payment plan is different from Google's pay-per-click model for advertising, where businesses pay each time someone engage with an ad. Google says that idea came from tens of millions of consumers doing image searches of products and asking, "Where can I buy this?" Retailers can use Shopping Actions to offer customers the option to add items to their Google Express shopping carts using voice-activated Google Home. Target has reportedly seen a 20% increase in the number of items in shoppers' Google Express carts as a result, according to Reuters.

Drones Away

Amazon was issued a patent for cushioning packages with inflatable air bags, allowing them to be dropped by drones from as high as 25 feet. The drone would inflate the air bag while in transit. The air bag could also be used in case the drone experiences any sort of operational problem in the air. Reportedly the drone could use cameras and sensors to make sure the drop zone is empty of people, animals and fragile objects.