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Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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## US ECONOMY

### Exchange Rates June 29, 2018

<b>Euro</b>	1 Euro = \$1.167	\$1.00 = 0.856 Euros
<b>Canadian Dollar</b>	1 CAD = \$0.761	\$1.00 = 1.314 CAD
<b>Japanese Yen</b>	1 Yen = \$0.009	\$1.00 = 110.718 Yen
<b>Chinese Yuan</b>	1 Yuan = \$0.156	\$1.00 = 6.620 Yuan
<b>Mexican Peso</b>	1 Peso = \$0.051	\$1.00 = 19.655 Pesos

### Market Watch June 29, 2018

<b>DOW</b>	24,271	- 0.6%
<b>NASDAQ</b>	7,510	0.9%
<b>S&amp;P 500</b>	2,718	0.5%

The major indexes posted mixed results for the month of June, ending with either minor gains or losses. There was a high degree of volatility over the month, caused primarily by worries about trade wars. It was also the end of the second quarter. The DOW fell 0.6% for the month, was up 0.7% for the quarter and was down 1.8% for the year. The NASDAQ gained 0.9% for the month, 6.3% for the quarter and was up 8.8% for the year. The S&P, the index most closely followed by economists, gained 0.5% for the month, 2.9% for the quarter and 1.7% year to date. Experts say fundamentals haven't changed and expect GDP and corporate earnings for the second quarter to be robust.

### Consumer Confidence Falls to 126.4

**The New York-based Conference Board's Consumer Confidence Index fell to 126.4 in June** after rising to an upwardly revised 128.8 in May. The Present Situation Index was relatively flat at 161.1 after rising to a downwardly revised 161.2 in May. The Expectations Index accounted for most of the decline, dropping to 103.2 in June after rising to an upwardly revised 107.2 in May. Expectations are still high by historical measures, but the slight drop in confidence could indicate that consumers do not foresee the economy gaining much momentum in the months ahead. 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 May** after rising a downwardly revised 0.5% in April. Spending was below economists' expectations. Core consumer spending was little changed in May after rising 0.4% in April. Personal incomes rose 0.4% in May after rising 0.3% in April and the savings rate rose to 3.2% after remaining at an upwardly revised 3.0% in April. Core PCE inflation rose 0.2% in May and was up 2.0% from May 2017, the first time in six years the core index has been up 2.0%, the Fed's target rate for inflation.

### Consumer Prices Rise 0.2%

**The Consumer Price Index (CPI) rose 0.2% in May after rising by the same percentage in April.** The CPI was up 2.8% over the past twelve months, the biggest annual gain in more than six years. Core inflation, which excludes food and energy, rose 0.3% in May after rising 0.1% in April and was up 2.1% from May 2017. Gasoline prices rose 1.7% seasonally adjusted in May, driving much of the overall increase, but the rise in core inflation is being driven by rising prices for services. Gasoline prices typically rise as the summer driving season gets underway.

### Unemployment Rises to 4.0%

**The unemployment rate rose to 4.0% in June after falling to 3.8% in May and the economy added a robust 213,000 new jobs.** In addition, gains for April and May were revised up by 37,000. The uptick in the unemployment rate was due to an additional 600,000 job seekers who had stopped looking for work re-entering the work force. The number of new jobs created was above expectations of 195,000. Job gains were broad based, with the private sector adding 202,000 new jobs. Construction added 13,000, but retailers cut 22,000. Economists noted that the retail sector continues to experience fallout from the increase in online shopping. Wages rose by 2.7% for the second consecutive month. Economists said that the solid jobs report along with other economic news is evidence that the 9-year economic expansion is still moving forward and the economy is on solid footing.

### Durable Goods Orders Fall 0.6%

**Durable goods orders fell 0.6% in May after dropping an upwardly revised 1.0% in April.** Economists had expected orders to fall 1.0%. Excluding the very volatile transportation

category, orders fell 0.3% after rising 0.9% in April. Nondefense capital goods orders excluding aircraft, widely regarded as a proxy for business spending plans, fell 0.3%. Nondefense capital goods shipments, which factor into GDP, rose 3.0%; excluding aircraft they dropped by 0.1%. The durable goods report is volatile and often subject to sharp revisions.

## Chicago PMI Rises to 64.1

**The Chicago Purchasing Managers' Index (PMI) rose to 64.1 in June** after rising 5.1 points to 62.7 in May and was up 0.8% from June 2017. It was the highest level for the index since January. Four of the five components rose for the month, but the big jump was primarily driven by an increase in New Orders, which rose to a five-month high. Somewhat offsetting the growth was a slight fall in Production. The Prices Paid indicator rose to the highest level since May 2011. It was the third consecutive month this indicator remained above 70, which means that Prices Paid is at a seven-year high on a quarterly basis as well. About 25% of respondents to one of two special questions posed indicated that ongoing trade talks were having a significant impact on their business and an additional 39.2% indicated they were having a minimal impact. In addition, 38.6% of firms said that they had increased starting salaries to attract prospective employees.

## Wholesale Prices Rise 0.5%

**The Producer Price Index (PPI) jumped 0.5% in May after rising 0.1% in April**, continuing the upward climb in producer prices that has been going on since August 2016. The big jump was primarily due to a 4.6% spike in energy prices. The PPI was up 2.6% from April 2017. Core producer prices, which exclude food, energy and trade services, rose 0.3% in May after rising 0.2% in April and were up 2.6% compared to May 2017. The PPI for inputs to construction jumped 2.2% in May and the cost of all goods used in construction was up 8.8%. Some of the biggest year-over-year increases were in lumber and plywood, diesel fuel and aluminum shapes. While inflation has definitely picked up, analysts say it is doing so at a manageable pace.

## Q1 GDP Growth Revised Down to 2.0%

**GDP grew a downwardly revised 2.0% in the first quarter**, down from the 2.3% first reported and the second reading of 2.2%. The downward revision was due to the weakest consumer spending in nearly five years as well as a smaller inventory

accumulation that first estimated. Growth in consumer spending for the quarter fell to 0.9% from the previously reported 1.0% growth. Consumer spending grew 4.0% in the fourth quarter and is expected to pick up significantly in the second quarter. It was the slowest pace since the second quarter of 2013. First quarter inventories were revised down to \$13.9 billion from the \$20.2 billion pace estimated in April, leaving inventory investment neutral to GDP growth. Investment in homebuilding fell at a 1.1% rate in the first quarter, an improvement from the 2.0% decline first reported. The smaller inventory accumulation will most likely be good news for second quarter GDP growth, currently being estimated to be as high as 5.3%.

## Job Openings Rise Slightly

**The number of job openings rose slightly to 6.70 million in April, a new record high**, according to the Job Openings and Labor Turnover Survey, or JOLTS. Over the month, total separations increased slightly to 5.41 million, while the quits rate was little changed at 2.3%. 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. The number of unemployed workers per job opening dropped below 1.0 for the first time to 0.9, and there is little hope that the tight market for companies looking to hire will loosen up any time soon. Employers hired 5.58 million workers in April. Hires have outpaced separations in every month since August 2010. The JOLTS report is one of the Fed's preferred economic indicators.

## Fed Raises Interest Rates 0.25%

**The Fed raised interest rates to a range of 1.75% to 2.0% in June** and increased the number of rate hikes planned for this year from three to four, which would mean we can expect two more increases before the end of the year. The Fed is also forecasting three rate increases in 2019 and one in 2020, which would leave the benchmark rate at 3.1% by the end of 2019, up from the previous forecast of 2.9%. For 2020, the Fed foresees a median of 3.4%, which would mean that rates would finally exceed the 2.9% the Fed regards as neutral, neither stimulating nor restraining growth.

## Fed Economic Forecast

**GDP will grow at a 2.8% this year**, up from 2.6% in 2017, but will dip to 2.2% in 2019, according to the Fed's revised economic forecast. Inflation, as measured by the Consumer Price Index

(CPI) will grow 2.9% this year after growing 2.1% last year and will increase 2.3% in 2019, as oil prices rise before falling later this year. Real personal consumption expenditures will drop to 2.2% this year from 2.8% in 2017, and remain at 2.2% in 2019. The unemployment rate is expected to be 3.8% this year and 3.9% next year. Treasury rates are anticipated to move up this year and keep increasing in 2019, which will keep mortgage rates ticking up. At nine years, the current economic expansion is now the second-longest in history. It will become the longest if it lasts past June 2019.

## ABA Economic Forecast

**The American Bankers Association's (ABA) Economic Advisory Committee predicted that GDP will rise by 2.8% this year, up from their forecast of 2.4% in January.** They also forecast that unemployment will fall to 3.6% in 2019 from the current 3.8%. The improved outlook is due to a boost in government spending and an expected increase in business investment. Economic growth should then slow to a more modest 2.2% in 2019 and drop to 1.6% in 2020, according to the consensus projections from the 16 economists. Chairman Ellen Zenter, who is the chief US economist for Morgan Stanley, said there is nothing particularly worrisome about that outlook, it simply represents a natural slowing of the business cycle and is the soft landing policymakers are attempting to achieve. None of the economists had a recession in their forecast, although lingering uncertainty about trade policy poses a risk. They don't believe inflation will rise much above the Fed's target of 2%

## HOUSING & CONSTRUCTION

### Housing Starts Rise 5.0%

**Housing starts rose 5.0% in May** to a seasonally adjusted annual rate of 1.35 million units after falling to 1.29 million units in April. **Single-family starts rose 3.9%** to 936,000, the second highest reading since 2008, and up 9.8% from May 2017. Multifamily starts rose 7.5% to 414,000 units after falling to 393,000 units in April, and were up 13.6% from May 2017. 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 62.2% in the Midwest, but fell 0.9% in the

South, 4.1% in the West and 15% in the Northeast.

### Building Permits Fall 4.6%

**Overall building permit issuance fell 4.6% in May** to a seasonally adjusted 1.3 million units after rising to 1.35 million units in April. **Single-family permits fell 2.2%** to 844,000 units in May after rising to 859,000 units in April. Multifamily permits fell 8.7% to 457,000 units after falling to 493,000 in April. **Regional permit issuance was mixed.** Permits rose 42.1% in the Northeast and 7.2% in the Midwest. Permits fell 4.6% in the West and 13.9% in the South.

### New-Home Sales Rise 6.7%

**Sales of newly built, single-family homes rose 6.7% in May** to a seasonally revised annual rate of 689,000 after April sales were revised down to 646,000 units. Sales are up 14.1% from May 2017. The inventory of homes for sale at the end of May slipped slightly to 299,000 from 300,000 in April, a 5.2 month-supply at the current sales pace. Inventories of completed homes remain exceptionally lean. **Regional sales were mixed.** Sales rose 17.9% in the South and were up 19.2% year over year (Y/Y). Sales were flat in the Midwest and up 4.6.3% Y/Y, fell 10% in the Northeast and 16.3% Y/Y. Sales in the West fell 8.7% but were up 0.6% Y/Y. 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 Fall 0.4%

**Total existing home sales dropped 0.4% in May** to a seasonally adjusted annual rate of 5.43 million after falling to 5.46 million in April. The third consecutive monthly decline in sales left existing home sales 3.0% below May 2017. **Single-family home sales fell for the second consecutive month, dropping 0.6%** to a seasonally adjusted annual rate of 4.81 million in May after falling to 4.84 million in April and were 3.0% below the pace of May 2017. The NAR says the culprit is the extremely low level of inventory available; there are nowhere near enough listings to meet demand, which also means prices keep climbing, putting the home they want out of reach for many people. Existing home sales have fallen 3.0% over the past year, but the number of homes for sale has fallen 6.1%. Total housing inventory at the end of May climbed 2.8% to 1.85 million existing homes for sale, 6.1% below the rate of May 2017. Unsold

inventory is at a 4.1-month supply at the current sales pace compared to a 4.2-month supply a year ago. **Regional sales were mixed.** Sales rose 4.6% in the Northeast, but fell 0.4% in the South, 2.3% in the Midwest and 0.8% in the West.

## Builder Confidence Falls to 68

**Builder confidence fell to 68 in June after rising to 70 in May**, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). All three component scores fell one point in June, with current sales conditions falling to 75, expectations in the next six months dropping to 76 and buyer traffic edging down to 50. According to NAHB, builders are increasingly concerned that tariffs placed on Canadian lumber and other imported products are hurting housing affordability. Record-high lumber prices have added nearly \$9,000 to the price of a new single-family home since January 2017. Looking at the three-month moving averages for regional HMI scores, the Northeast rose two points to 57, the West and Midwest remained unchanged at 76 and 65, respectively, and the South fell one point to 71. Despite the challenges, the score in the Northeast was the highest reading since 2005.

## Mortgage Rates Steady

**A 30-year fixed-rate mortgage (FRM) was virtually flat in June** at 4.55%, dropping slightly from 4.56% in May. Last year at the end of June rates averaged 3.88%.

## POWER TOOL INDUSTRY

### Robert Bosch Tool Corporation

**Dr. Michael Bolle joined the Robert Bosch GmbH board of management July 1.** He was the head of the corporate sector for research and advance engineering. He will be assuming the newly created position of chief digital officer as well as taking over the chief technology officer position. Bosch is committed to driving forward the company's digital transformation.

**Dr. Christian Fischer will become head of the Energy and Building Technology business sector** in January 2019. He is currently a senior partner at management consulting firm Roland Berger. His responsibilities will include Building Technologies and the Robert Bosch Smart Home GmbH subsidiary as well as Thermotechnology and Bosch Global Service Solutions.

**Dr. Rolf Baulander will be retiring at the end of the year after 30 years with Bosch.** He has been a member of the board of management since 2013, and a spokesperson for the Mobility Solutions business sector since 2015. Effective January 1, 2019, Dr. Stefan Hartung will assume Dr. Baulander's position with Mobility Solutions.

## Stanley Black & Decker

**From the JPMorgan Homebuilding Conference:**

**SB&D was represented at the conference by CFO Don Allan.**

**It is key to them to make sure that all of their brands are in industries that can grow** and also have the potential for SB&D to distinguish themselves through innovation.

**They are focused on becoming a smart, digitally oriented company** with technologies that can drive value through the supply chain.

**They defined Lenox, Irwin and Craftsman as near-term growth catalysts for this year through 2020.** They are rolling out several revenue synergies related to Lenox and Irwin that will result in between \$100 million and \$150 million in extra revenue. Craftsman is at least a \$1 billion revenue opportunity over a 10-year period of time. They will be rolling out Craftsman with Amazon later this year. The Craftsman business will be a huge positive, but it may have a short-term negative impact on margins as well as sales of some of the brands that are coming out of Lowe's.

**FlexVolt will also continue to be a growth catalyst for the next several years.** The technology continues to roll out across their cordless power tools system. They plan to introduce between 5 and 7 new products each year.

**They have created breakthrough innovation teams for every major business.**

**Between 200 and 250 Lowe's stores will get the full Craftsman roll out this year;** the remaining 1,500 North American stores will be converted during the first quarter of 2019. Of course there is some cannibalization with some products coming out of Lowe's, but they hope to redeploy those brands to other areas over the next few years.

**They are planning on growing from \$13 billion now to \$22 billion by 2022.** They will continue to evaluate bolt-on acquisitions in the tools segment to help them reach that goal, and also have an interest in lawn and garden, where Craftsman is strong. They may look at a joint venture, commercial relationships or smaller acquisitions.

**They are trying to better understand how they can provide more value to their customers** by utilizing their advanced analytic techniques.

**They are now expecting commodity inflation to grow to about \$180 million this year,** up from initial estimates of \$150 million. They have actions in place with many customers that will offset about \$100,000 million of that and they are discussing taking further price actions.

#### **From the Electrical Products Group Conference:**

**When Jim Loree took over as CEO in August 2016, he had outside analysts delve into the company history to look for common themes,** areas of strength and weakness, etc. One recurrent theme was boldness, which he described as being able to innovate and reinvent themselves.

**They have implemented commercial excellence in their European business for tools** over the past four years and have averaged 7% organic growth in a market that is only growing about 1% - 2%.

**Their growth pipeline has never been more robust than it is now** and includes both organic and inorganic opportunities.

**They have redesigned more than 1,000 SKUs to support the massive Craftsman rollout throughout Lowe's, Ace and Amazon.** He described the impact on Lowe's as "mind-blowing." They believe Craftsman will grow to be substantially bigger than their initial estimate of \$1 billion over ten years. An analyst asked if it would be closer to \$3 billion and Loree said he thought the day was coming when he would be comfortable with that number, now that they have seen the very high degree of interest and customer receptiveness.

**Last year FlexVolt contributed \$300 million in sales** and they expect it to expand and grow as they add SKUs and the installed base grows.

**They did about \$1 billion in ecommerce last year,** about half with Amazon. The ecommerce segment is growing in the 20% to 30% range, and they are very committed to growing it both through Amazon and the home center OEMs with their own captive ecommerce platforms.

**They have built in about \$180 million in inflation** and will recoup \$120 of that through price, a combination of working with their customers and their suppliers.

**They hosted Craftsman Day for analysts in early June,** when they invited analysts to tour the Craftsman "garage" and described it as a life-changing experience.

**Loree has been working with the senior people at Lowe's** and feels as if they are committed to making sure the execution lives up to expectations. Lowe's has put a massive project management office in place that is working daily to make sure everything works as planned.

**They need a digital transformation in order to become known as one of the great innovative companies.** They do not have a massive R&D department, so they are doing a lot through their Ventures investing group, which makes \$1 million to \$3 million investments in emerging tech companies. They have made 20 such investments over the past three years. They have also opened a little shop in Silicon Valley that is focused on commercializing some of their breakthrough innovations.

#### **Other News:**

**SB&D made an investment in Humavox, a provider of wireless technology** based in Israel. The technology turns everyday objects into chargers, including anything from car cup holders to tool bags. SB&D says it is part of their commitment to bring wireless charging capabilities to both commercial and industrial applications.

**DeWalt's new 20V MAX Tools feature Bluetooth connectivity,** which allows them to connect to DeWalt's Tool Connect app for approximate location tracking and tool customization features. The newest additions include two laser distance measurers.

**CEO Jim Loree wants to see emerging markets grow from 14% of annual revenue to 20%**, in part by creating products specifically geared toward those countries' needs.

## Trimble

**Trimble will acquire Viewpoint Construction Software for \$1.2 billion in an all-cash deal.** Viewpoint software helps with planning a construction product and blending office and field data workflows. Viewpoint is headquartered in Portland, Oregon, and has 700 employees and 8,000 customers globally. Trimble also acquired Stabiplan B.V., a Netherlands-based software company that produces 3D computer-aided design and engineering software and Building information modeling (BIM).

## RETAIL

### Retail Sales Rise 0.8%

**Retail sales rose 0.8% in May** after rising 0.3% in April. Sales were up 5.9% from May 2017. The increase was twice what analysts were expecting. Core retail sales, which exclude autos, gasoline, building materials and food sales, rose 0.5% in May after rising 0.3% in April and were up 5.2% year over year. Sales at building material stores rose 2.4% after being revised downward to a 0.8% decline in April. 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.

### Menards Takes Top Spot on J.D. Power

**Menards took over the top spot on the annual J.D. Power Home Improvement Retailer Satisfaction Study.** Ace Hardware, which held the top spot for the previous 11 years, came in second. The study factors in customer satisfaction with merchandise, price, sales and promotions, staff and service and store facility. Menards scored 836 points on the 1,000-point scale. Ace scored 832 and also performed highest in staff and service. Lowe's scored 828 and performed highest in merchandise and store facility. Some other key findings: customers expect to receive assistance from a store employee within two minutes of entering the store. Satisfaction drives loyalty. Among respondents with overall satisfaction scores of 901 or above,

80% say they will definitely repurchase from the retailer, compared to the study average of 48% for all respondents. Additionally, 83% of respondents who are highly satisfied with a particular retailer would definitely recommend that retailer to others, compared to the study average of 49% who would recommend a retailer.

## The Home Depot

**From the Sanford Bernstein Strategic Decisions Conference:**

**Back in 2007 then CEO Frank Blake made a very tough decision on the best path for future growth,** and changed the strategy from new square footage growth, which had driven company growth for 30 years, to productivity and efficiency. Back then they had been opening a new store every 48 hours. It was a huge cultural shift for them, but it was the right thing to do. Back then a typical home improvement retailer was supported by 75,000 to 80,000 households; today that number is closer to 38,000.

**The other key strategic decision they made was to not construct a traditional retail supply chain.** They aggregate up to 100 stores' worth of product at their rapid deployment centers, which allows them to meet vendor minimums and speed up in-stock positions for customers.

**They think they often make strategic choices that other retailers then follow several years later.**

**They contrasted their stock management model with Amazon's,** which is driven entirely by algorithms, with each buyer handling as many as 50,000 products, while theirs is driven by a combination of science and the art of merchandising. Menear said "Buyers buy products. Merchants sell products. We are focused on being merchants."

**In 2015 they did a study on what they see as opportunities and what they should focus on 8 to 10 years out.** They brought in 4 different groups of millennials to design what the Home Depot of the future should look like, and they learned a lot of things from them. One thing they were pleased about was learning that stores would still matter, and that they have the same desires as previous generations. They do want to own a home, it's just an issue of timing. THD thinks the typical cycle is delayed about 6 to 7 years, due to the fact that millennials are

coming out of school heavily in debt, getting married later, having children later.

**Over the next 3 years they will be investing \$1.2 billion in building a downstream network** that will take goods from distribution facilities and stores directly to customers' homes and jobsites.

**They purchased Interline to get back into a subset of the MRO space** that they feel is important to their business: multi-family, hospitality and institutional.

**They are focused on creating One Home Depot**, so no matter what channel customers engage with, they think of them as Home Depot.

**Right now about 60% of households are more than 30 years old**; by 2020, 54% of households will be more than 40 years old. Older homes need more maintenance, which bodes well for their business. And more customers are remodeling because it's easier than finding a new home with the features they want that they can afford.

**Meneer listed Costco and Nordstrom as two retailers he greatly admires.**

**Their M&A approach is to look at capabilities that make more sense to buy than to build.**

**They are doubling the investment they make in the business over the next three years to \$11.1 billion.** About half of the investment will go into stores for two specific purposes. First, going to the store needs to be a great experience. Second, they need it to be interconnected because the customer starts in the digital world, even if they finish in the physical world. They are also investing to give customers the two things they ask for, speed to checkout and more help finding things. They are focused on making it easier to shop and find things in stores. They will be spending more than 50% of the investment to make sure the stores are the hub of their business. They are also continuing to enhance digital capabilities and build out a more personalized approach for the customer, including a business to business website experience for business customers.

#### **From the RBC Capital Markets Conference:**

**They hired 80,000 associates in Q1**, and did not have any trouble finding them. They had multiple applications for most positions despite the tight labor market.

**They assessed today's competitive environment as fragmented**, with mom and pops and regionals holding the overall majority of market share.

**They have a clear advantage over Amazon in that Amazon cannot handle complex projects** nor do they have 400,000 associates who can knowledgeably work with customers. When they perfect The Last Mile (store to customer) and get all of their delivery market centers up and running they will have a huge advantage over internet-only retailers. They already offer Pros a 2 to 4 hour delivery window.

**Right now their specialized DCs cover about 30% of the US.** They are planning to cover 90% within the next three to five years and want to be able to offer deliveries of two days or less to consumers.

**Over the last two years much of the growth in comps has come from rising average ticket** rather than an increasing number of transactions.

**They are also focused on upgrading assortments and improving training** to make sure they have the best associates in retail.

#### **Other News:**

**Tesla's broad restructuring includes ending its partnership with Home Depot**, according to a report by CNBC. THD said that they will remain partnered with Tesla through the end of the year and will continue to offer solar solutions. Tesla is reportedly laying off 9% of its workforce.

### **Lowe's**

**CFO Marshall Croom, who has spent 21 years in various financial roles with Lowe's, is retiring in October**, but will remain in the CFO position until a replacement is named and through a transition period.



## Walmart

**Walmart is starting an order by text service**, another step in their efforts to compete with Amazon. Customers will be able to order items from Walmart.com or even rival retailers' websites, and have them delivered the same day. The same-day and next-day delivery will be free with a Jetblack membership, which costs \$50 annually. Amazon Prime recently raised the annual cost of membership 20% to \$119.

**Walmart is suing to prevent a former top tax executive from taking a job with Amazon**, arguing that Lisa Wadlin has sensitive information that would be a significant advantage to a competitor, including knowledge of strategic information and future business plans, along with mergers and acquisitions. Wadlin is bound by a non-compete clause.

## Sears

**Sears will expand the number of stores in which customers can have tires purchased on Amazon installed** from 47 to 118. More than 90% of Amazon tire buyers are new to Sears' auto services.

## ACE Hardware

**Giant Eagle opened their first Ace Hardware location**; it's in North Huntingdon, Pennsylvania. Remodeling at other Giant Eagle locations is expected to begin later this year. Ace announced the partnership in April of this year. Ace has entered into similar arrangements with independent grocery retailers but is starting to team up with larger players. Progressive Grocer reported earlier this year that The Kroger Co. was exploring the idea of a store-within-a-store concept with Ace.

## Amazon

**Amazon is teaming up with American Express to launch a credit card for small businesses.** Amex has stated they want to become the leading payments and working-capital provider for small and middle-market companies. They reported small business credit card balances of \$11.4 billion globally for the first quarter, a 14% increase from the previous year. Amazon has separate deals with JPMorgan Chase, which issues Amazon consumer credit cards and Synchrony Financial, which issues cards that are primarily limited to Amazon-only purchases.

**Amazon pushed back when the Seattle City Council approved legislation imposing taxes on Amazon and other large companies** in order to help combat the homeless situation. Amazon temporarily halted construction planning on a new high-rise building near their Seattle headquarters in protest. In the end, city leaders capitulated to pressure and reversed their decision. The tax would have charged companies about \$275 per full-time worker each year for affordable housing and homeless services. It targeted nearly 600 businesses making at least \$20 million in gross revenue. The companies fought back with an effort bannered "No Tax on Jobs."

## CANADA SNAPSHOT

### Economic Forecast

**Canada's economy started the year on a soft note and will likely pick up modestly as the year progresses**, with GDP growing 2.0% this year, according to the RBC Economic Outlook. Recent US tariffs have had a relatively small impact, as steel and aluminum production account for just 0.5% of Canadian GDP and jobs. Business fixed investment grew at a 10.9% annualized rate in the first quarter, but tariffs could depress further growth. According to RBC, the Canadian dollar is likely to hover in its current trading range in 2018. All ten provinces will likely see the pace of growth slow compared to last year, with BC, Alberta and Saskatchewan expected to lead with 2.4% growth. Ontario should be about average, and Quebec slightly above average.

### Unemployment Rises to 6.0%

**Canada's economy added 31,800 jobs in June and the unemployment rate rose to 6.0%** from 5.8% in May, according to Statistics Canada's latest labour force survey. Many analysts read the higher jobless rate as an encouraging sign because the influx of nearly 76,000 job seekers back into the labour market suggests that more people are optimistic they can find work thanks to the hotter economy. Average hourly wage growth, which is closely watched by the Bank of Canada ahead of its rate decisions, remained firm in June at 3.6% after reaching a nine-year high of 3.9% in May.

## Consumer Confidence Rises to 55.83

**Consumer Confidence in Canada rose to 55.83 in June after dropping to 53.94 in May**, 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 constructed from responses to four attitudinal questions posed to a random sample of Canadian households.

## Consumer Prices Rise 0.1%

**The consumer price index (CPI) rose 0.1% in May** after rising 0.3% in April and was up 2.2% year over year, according to Statistics Canada. The increase was well below economists' expectations of a 0.4% increase. Excluding food and energy, core prices rose 0.1% month over month and 1.7% annually.

## Canada U.S. Trade Updates

**Talks about the North American Free Trade Agreement (NAFTA), are reportedly due to resume** within weeks. Negotiators from Canada, Mexico, and the United States were unable to meet an informal deadline for modernizing at their last meeting in May. No exact date has been agreed upon. Trade officials from the US and Canada have said that they intend to continue negotiating over the coming months but did not indicate whether they would try to clinch an agreement in principle this year. The three parties missed an informal May 17 deadline for reaching such an accord.

## Housing and Construction News

**The pace of new housing construction slowed in May** as the number of multiunit projects in urban areas fell in the double digits after several months of above-average activity. The seasonally adjusted rate of starts for all of Canada fell to 195,613 units in May from 216,775 in April. Regionally, there were big declines in Ontario and Quebec, but there were increases in British Columbia and the Prairies. May is typically a relatively weak month for new residential construction. Starts were up 1.0% year over year.

**Home sales are likely to drop 11% this year to 459,000 units**, according to the latest forecast from The Canadian Real Estate Association (CREA). The forecast was up from the 7.1%

decline forecast in March. Rising mortgage rates and new regulations that require more than a 20% downpayment are dampening activity. Despite the double-digit decline, analysts say it was a better than expected report and supports the belief that markets are now stabilizing after the expected volatility at the beginning of the year.

**More than half of Canadians under 35 years old said they are spending less because of recent increases in interest rates**, according to a survey by Nanos Research. The Bank of Canada (BoC) says that higher interest rates are impacting consumer spending. Nanos Research reported that 30% of respondents under 35 say negative rates are having a negative impact on spending; another 23% say it is somewhat negative. Among respondents of all ages, 41% reported at least a somewhat negative effect. Nanos conducted the research on behalf of Bloomberg.

## Retail Sales Drop 1.2%

**Retail sales declined 1.2% to \$49.5 billion in April after three consecutive monthly increases.** The decrease was primarily due to lower sales at motor vehicle and parts dealers. Inclement weather in many parts of Canada may have contributed to the overall decline in April. Excluding sales at motor vehicle and parts dealers, retail sales were down 0.1% in April. Sales were down in 8 of 11 subsectors, representing 65% of retail trade. Removing the effect of price changes, retail sales in volume terms declined 1.4%. Six provinces reported lower sales in April, with the bulk of the decline concentrated in Ontario and Quebec. Sales increased in British Columbia for the third consecutive month and were up in Saskatchewan for the first time since October 2017. In Canada, retail sales account for about half of all consumer spending, and are considered a proxy for overall consumer spending.

## MARKET TRENDS

### Construction Costs Rising

**Construction costs climbed again in May**, with the cost of all goods used in construction increasing 8.8% year over year. Construction industry trade groups blame much of the rising costs on trade disputes, but the new tariffs were not announced

until the end of May and had no influence on the Producer Price Index for May, so contractors' costs will rise further. In addition, mills and factories may not be able to keep up with surging orders for materials, which could lead to delays, overruns and cancelled project. Some of the increases in May included aluminum mill shapes, up 17.3%, lumber and plywood, up 13.9%, steel mill products, up 10.5%, copper and brass, up 13.8%, diesel fuel, up 44.5%, ready-mix concrete, up 6.5% and paving mixtures and blocks, up 5.2%.

## Framing Lumber Shortage, Rising Prices for Materials

**The National Association of Home Builders (NAHB) reported that shortages of framing lumber are now more widespread than at any time since NAHB began tracking the issue** in a consistent way in 1994. Over 30% of single-family builders responding to a May 2018 survey question reported a shortage of framing lumber, outdistancing the other 22 listed building products and materials by a wide margin. In second place were trusses (with a shortage reported by 24% of builders), followed by lightweight steel and OSB (at 20% each) and plywood (at 19%). Last year, the reported shortage percentages for these items were significantly lower—21% for framing lumber, and under 15% for all other products/materials. It is probably not a coincidence that the top five items on the 2018 shortage list are made of softwood lumber or steel, both of which have been targeted with new import tariffs over the past year.

## Most Valuable Global Brands Are in Tech

**Eight of the top ten most valuable brands are in tech**, according to the BrandZ Top 100 Most Valuable Global Brands study. Among them are Google, Apple, Amazon, Microsoft and Facebook, with the top two, Google and Apple, growing at 23% and 28%. Amazon muscled Microsoft out of the number three spot.

## Brand Marketing Frustrates Consumers

**According to a recent survey of hundreds of business to consumer digital marketers, 70% of millennials are frustrated by what they perceive as irrelevant emails.** Consumers want to receive one to three marketing emails per month, but brands typically send out eight to ten, and are planning on sending out even more. Email remains the top ROI-driving tool, because it is the cheapest to implement and consistently pro-

duces the highest engagement with consumers. A whopping 95% of marketers in retail say that Amazon has significantly impacted their marketing plans. Retailers make the most investment in personalization, with 79% of those in retail marketing investing in personalization tools, and 51% saying that creating a more personalized customer experience was their top-ranked opportunity. One of the issues analysts note is that the steady increase in smart devices and smart technologies has raised consumers' expectations, and they have less patience with anything that tells them the sender does not understand them or their needs.

## Virtual Assistants Vulnerable to Hacks

**Amazon confirmed that Alexa recorded a private conversation a couple had in their home and then sent it to someone on their contact list** without their knowledge or consent. Apparently the device "woke up" when it heard a word that sounded like Alexa. Then Alexa interpreted a conversation as a send message request, and asked "To whom?" Apparently the background conversation was interpreted as a name on the contact list. Analysts said that as AI becomes more integral, hacks, eavesdropping and data siphoning risks grow. Among the tips being handed out: don't buy second hand, don't defer to default settings, use a separate router and get used to hitting mute when you are not intending to say anything requiring action from your digital assistant.

## Facial Recognition Could Pose Civil Rights Issues

**Amazon is selling a little-known service called Rekognition to law enforcement.** The powerful program uses artificial intelligence to recognize up to 100 people in a single image and quickly find faces in databases containing tens of millions of photos. Law enforcement is relying more heavily on social media and other tech tools to help them find suspects. The ACLU has gotten involved, asking Amazon to stop selling Rekognition to law enforcement. One of the biggest surveillance providers in the world, Israel-based Verint, is running a large database of Facebook photos for facial recognition. Amazon says it will only support responsible and legal uses of facial recognition.

## Algorithms Used to Hack Gift Cards

**Five people have been indicted on charges they hacked Target gift cards and bilked Target out of nearly \$800,000.**

The group devised an algorithm that could identify a gift card's bar code, then used the company's automated customer service telephone system to find cards with balances. They then loaded the balances onto electronic wallet or mobile phone apps, redeemed them at Target stores and sold the items they purchased for bitcoins. The thefts took place at stores in Washington, Oregon, California, Nevada and Colorado. At least two of the suspects are in their twenties.

## Marketing to Generation Z

**After a decade of focusing on millennials (born between 1981 and 1996) many companies are starting to look ahead to the next generation. Generation Z** describes the 68 million Americans born after 1997. This customer base is more diverse than any other and grew up with streaming services like Netflix that make watching commercials seem strange. The focus on mobile devices presents a special challenge to marketers; according to analysts, while millennials share this trait to some extent, they straddle the world between the traditional and the digital so traditional messages delivered in traditional ways can still resonate. Companies that focus most directly on this generation have already changed their marketing. The older members of Gen Z are entering college; marketers say they came of age in the Great Recession and are more value-conscious than millennials. They have been described as a gaming generation that dislikes having to talk to someone to make something happen; if commerce seems more like a game, they are more likely to engage, according to some of the companies that market directly to this generation.

## Paid to Quit

**Once a year in mid-winter, Amazon fulfillment center employees are sent an offer called "pay to quit."** The headline is "Please don't take this offer," and the accompanying letter is from CEO Jeff Bezos. Employees who do take it get paid based on their years of service, starting at \$2,000 for one year and going up by \$1,000 a year until it's capped off at \$5,000. A spokesperson for Amazon said they want people working at Amazon to really want to be there; the goal is to encourage people to stop and think about what they really want. The program was modeled on a similar program developed by Zappos, which Amazon acquired in 2009. Only a small percentage of employees take the offer, according to Amazon.

## The Impact of Rising Consumer Prices

**It wasn't that long ago that rising gasoline prices really hurt the economy and slowed consumer spending.** The cost of a gallon of gas has risen 20% over the past year, from a nationwide average of \$2.32 in mid-June 2017 to \$2.88 in mid-June 2018. However, analysts say that the cost of food has a much bigger impact on Americans. Food prices have gone up just 1.2% over the past 12 months. Fifty years ago food accounted for more than 20% of a family's annual budget. Today food eats up slightly more than 12% of disposable income while gas accounts for just 4%. The impact of higher gas prices is also less broad than the impact of rising food prices, as many younger people, city dwellers and a growing elderly population don't drive much or rely on public transportation or ride-sharing services. Gas prices would have to rise much more to equal the all-time high of \$4.11 per gallon reached in mid-2008, when the economy was heading into what became known as the Great Recession. Analysts note that people who are healthy, don't drive much and own their own home are barely feeling the effects of inflation.

## Drone Patent Aims at Warehouse Inventory Management

**Amazon Technologies was awarded a patent for the use of drones to more efficiently manage the movement of inventory within a warehouse.** Stock in modern warehouses is often stored on multiple levels. According to the patent application, the use of a drone allows orders to be quickly and efficiently filled no matter where items are stored. The drone collects items and brings them to a staging point/docking station where they can be consolidated and readied for shipping or distribution.