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Top Home Improvement Stores

Bosch | **Dremel**

RotoZip | **Vermont American**

CST/berger | **freud** | **Sia**

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US ECONOMY

Exchange Rates August 31, 2018

Euro	1 Euro = $1.160	$1.00 = 0.862 Euros
Canadian Dollar	1 CAD = $0.765	$1.00 = 1.308 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 110.950 Yen
Chinese Yuan	1 Yuan = $0.146	$1.00 = 6.831 Yuan
Mexican Peso	1 Peso = $0.052	$1.00 = 19.210 Pesos

Market Watch August 31, 2018

DOW	25,965	2.1%
NASDAQ	8,110	5.7%
S&P 500	2,902	3.0%

The major indexes all advanced in August, typically a tough month for the markets, with the DOW and S&P posting the best August since 2014, and the NASDAQ turning in its best performance in August since 2000. It was also the fifth consecutive monthly gain for the NASDAQ and the S&P 500. Markets were boosted by good corporate earnings and news of a trade deal with Mexico that raised hopes that Canada would also reach an agreement with the US.

Consumer Confidence Rises to 133.4

The New York-based Conference Board's Consumer Confidence Index rose to 133.4 in August after rising to 127.9 in July, according to the Conference Board's latest survey. It was the highest level of confidence since October 2000. Consumers' assessment of the current situation continued to improve, and expectations for the future bounced back after declining in June and July. The Present Situation Index rose 6 points to 172.2 and the Expectations Index increased five+ points to 107.6. Only 12.7% of consumers claim jobs are "hard to get" and only 9.1% think business conditions are bad. High levels of confidence should continue to support healthy levels of consumer spending. Economists note that a level of 90 indicates that the economy is on solid footing and a level of 100 or more indicates growth. Analysts caution that the real driver behind consumer spending is income growth and that labor market trends are a more accurate predictor of consumer behavior.

Consumer Spending Rises 0.4%

Consumer spending rose 0.4% in July after rising by the same percentage in June. The increase was in line with economists' expectations. Spending on goods rose 0.2% in July after slipping 0.1% in June. Spending on services rose 0.4% after surging 0.6% in June. Personal income rose 0.3% after growing 0.4% in June. Wages rose 0.4%. Spending is being supported by a robust labor market and an economy at what is regarded as full employment. Savings were little changed at $1.05 trillion. Inflation is cutting into wage gains, as disposable income adjusted for inflation rose 0.2% after increasing 0.3% in June. The personal consumption expenditures (PCE) price index excluding food and energy rose 0.2% in July after increasing 0.1% in June. That increased the core PCE price index to 2.0% from 1.9% in June. The core PCE index, the Fed's preferred inflation measure, hit the Fed's 2% inflation target for the third time this year in July after missing it since 2012.

Consumer Prices Rises 0.2%

The Consumer Price Index (CPI) rose 0.2% in July after rising 0.1% in June. The CPI was up 2.9% over the past twelve months for the second consecutive month. Core inflation, which excludes food and energy, rose 0.2% in July after rising 0.2% in June and was up 2.4% from July 2017. Much of the increase was driven by rising rents; the shelter index rose 0.3% in July, accounting for about 60% of the overall gain. The steady increase in inflation is cutting into household spending power, as real or inflation-adjusted hourly wages were flat in July and were down 0.2% from July 2017.

Unemployment Steady at 3.9%

The unemployment rate remained at 3.9% in August and the economy added 201,000 new jobs. Job gains for June and July were revised down by a total of 50,000 new jobs. The average monthly gain for the past 12 months is 196,000 new jobs; the economy needs to create about 120,000 new jobs each month to keep up growth in the working-age population. Job gains were spread across all sectors except manufacturing, where employment fell. Employment in construction continued to trend up in August with the sector adding 23,000 new jobs and has increased by 297,000 over the year. Average hourly earnings increased 0.4%, or 10 cents in August after rising 0.3% in July. That raised the annual increase in wages to 2.9% in August, the largest increase since June 2009.

Durable Goods Orders Fall 1.7%

Durable goods orders fell 1.7% in July after rising a downwardly revised 0.7% in June. It was the third decline in the past four months. The bigger-than-expected decline was due in part to a sharp drop in orders for transportation equipment, which fell 5.3% after jumping 1.8% in June. Core durable goods orders for non-defense capital goods excluding aircraft, regarded as a key indicator of business spending, jumped 1.4% in July after climbing 0.6% in June. Nondefense capital goods shipments, which factor into GDP, fell 0.2% in July after climbing 1.6% in June. The durable goods report is volatile and often subject to sharp revisions.

Chicago PMI Falls to 63.6

The Chicago Purchasing Managers' Index (PMI) fell to 63.6 in August after rising to 65.5 in July, which had been the highest level for the index in the past six months. The decline came after four consecutive months of gains. A softening in Supplier Deliveries, Order Backlogs and Employment offset gains in Production and New Orders. The PMI is still 6.9% higher compared to August 2017. The New Orders indicator is up 6.4% on the year and Production is up 9.1%. Supplier Deliveries fell for the second consecutive month but remained above 60, where it has stood for 11 out of the past 12 months. The Prices Paid indicator eased a bit in August but remained above 80 for the second time since late 2008. Firms continued to report elevated prices across a wide range of materials, from steel to resin, with many citing allocation issues stemming from ongoing trade disputes as a key reason. There were two special questions asked of panelists this month. The first asked whether they had passed higher input costs on to consumers, with more than 60% saying yes. Of those who said no, many said they faced intense competition, but may be forced to implement hikes in the coming months. The second question asked firms for their assessment of their current level of stock. One fifth thought their inventory was too high or too low, while about three-fifths of respondents thought it was just right.

Wholesale Prices Flat

The Producer Price Index (PPI) was unchanged in July after rising 0.3% in June. The PPI was up 3.3% from July 2017. Core producer prices, which exclude food, energy and trade services, rose 0.3% in July after rising by the same percentage in June. The core PPI was up 2.8% from June 2017, inching close to the record high of 2.9% reached in March. Both the headline and core indexes were depressed by an 0.8% drop in the very volatile "trade services" component, which measures profit margins for retailers and wholesalers. Analysts note this is a correction after a string of big increases, not a downward trend for the PPI.

Q2 GDP Revised Up to 4.2%

GDP growth was revised up to 4.2% in the second quarter from 4.1% in the first reading. Growth remained the fastest pace in nearly four years. Growth for the first half of 2018 was revised up to 3.2% from the 3.1% initially reported, putting the economy on track to grow 3.0% this year. Economists were surprised; they had expected GDP growth to be revised down to 4.0%. Businesses spent more on software than previously estimated and the nation also imported less petroleum. Stronger business spending and a drop in imports offset a small downward revision to consumer spending, which grew 3.8% in the quarter instead of the 4.0% first reported. Consumer spending has remained strong in the current third quarter but the housing market has continued to weaken.

Job Openings Rise

The number of job openings increased by 3,000 in June to 6.66 million from a slightly downwardly revised number in May, according to the Job Openings and Labor Turnover Survey (JOLTS). The job openings rate was unchanged at 4.3%; there are currently more jobs available than people looking for a job (6.56 million). Hiring slipped by 96,000 to 5.7 million and the hiring rate fell to 3.8% from 3.9% in May. The quits rate held steady at a 13-year high of 2.3% for the fourth consecutive month, although the number of Americans voluntarily quitting their jobs fell by 78,000 to 3.4 million. Hourly earnings increased 2.7% on an annual basis in July and the layoffs rate rose slightly to 1.2% or about 1.7 million people. Hires have outpaced separations in every month since August 2010. The JOLTS report is one of the Fed's preferred economic indicators.

Fed May Raise Rates in September

The Federal Reserve held interest rates steady in a range of 1.75% to 2.0% during their policy meeting at the end of July but indicated there was a high probability they would raise rates at the next meeting in September. The Fed noted that economic activity has been increasing "at a strong pace" and that the labor market continues to strengthen. Markets widely anticipate a total of two additional rate hikes of 0.25% each this calendar year. Core PCE inflation has been at or very close to the Fed's target of 2.0%.

HOUSING & CONSTRUCTION

Housing Starts Rise 0.9%

Housing starts rose 0.9% in July to a seasonally adjusted annual rate of 1.17 million units after falling to an upwardly adjusted reading for June. **Single-family starts rose 0.9%** to 869,000 units after falling to 858,000 units in June. Multifamily starts rose 3.0% to 306,000 units after dropping to a downwardly revised reading in June. Multifamily data tends to be particularly volatile on a month-to-month basis. Chronic labor shortages and rising costs for materials are delaying starts and making it tougher for builders to meet the growing demand for entry-level homes. NAHB expects single-family starts to rise 5% this year; multifamily starts are expected to fall slightly. **Regional starts fell** 3.0% in the West, 9.1% in the South, 35.8% in the Midwest and 40% in the Northeast.

Building Permits Rise 1.5%

Overall building permit issuance rose 1.5% to 1.31 million units in July after falling to 1.27 million units in June. **Single-family permits rose 1.9%** to 869,000 units after rising to 850,000 units in June. Multifamily permits rose 1.7% to 410,000 units after falling to an upwardly revised reading in June. **Regional permit issuance was mixed.** Permits rose 5.9% in the Northeast, 5.8% in the Midwest and 1.2% in the West. Permits fell 0.3% in the South.

New-Home Sales Fall 1.7%

Sales of newly built, single-family homes fell 1.7% in July to a seasonally adjusted annual rate of 627,000 units after June sales were revised up. The inventory of new homes for sale rose to 309,000 units in July after inching up to 301,000 in June, a 5.9-month supply at the current sales pace, up from a 5.7-month supply in June. The median sales price rose to $328,700. **Regional sales were mixed.** New home sales rose 10.9% in the West and 9.9% in the Midwest. Sales fell 3.3% in the South and 52.3% in the Northeast. Year-to-date, sales in the Northeast are down 14.5% as that region deals with impacts from tax reform and persistent affordability issues. 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 0.7%

Existing home sales fell 0.7% in July to a seasonally adjusted annual rate of 5.34 million after falling to 5.38 million in June. It was the fifth consecutive month that year-over-year existing home sales declined and left sales 1.5% below a year ago. Total housing inventory at the end of July dropped 0.5% to 1.92 million existing homes available for sale after rising to 1.95 million homes in June. Unsold inventory is at a 4.3-month supply at the current sales pace, unchanged from a year ago. **Regional home sales were mixed.** Sales dropped 8.3% in the Northeast, 1.6% in the Midwest and 0.4% in the South. Existing home sales in the West rose 4.4%. The NAR says there are nowhere near enough listings to meet demand, which also means prices keep climbing, making it harder for first-time buyers to qualify for a mortgage.

Builder Confidence Drops to 67

Builder confidence dropped one point to 67 in August after falling to 68 in June, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). Component scores were mixed. Current sales conditions dropped one point to 73, expectations slipped one point to 72 and buyer traffic dropped two points to 49. According to NAHB, builders remain very concerned that tariffs placed on Canadian lumber and other imported products are hurting housing affordability. Record-high lumber prices continue to be a real issue, and 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 fell three points to 54 and the Midwest fell three points to 62. The South and West each held steady at 70 and 75, respectively.

Mortgage Rates Flat at 4.52%

A 30-year fixed-rate mortgage (FRM) was virtually flat at the end of August at 4.52%; mortgage rates have been hovering in a narrow range for the past three months. Last year at the end of August rates averaged 3.78%.

POWER TOOL INDUSTRY

Robert Bosch Tool Corporation

Bosch's asset tracking IoT solution dubbed TRACI is being used to digitalize construction sites and help fleet operators track and deploy vehicles as efficiently as possible on huge construction sites. Productivity growth is substantially lower in the construction industry than in other industries, according to *Contify Automotive News*, and TRACI can improve how machinery is used as well as speed up the process of materials distribution. The digitalization of the construction industry is viewed by many industry experts and analysts as the key to attracting a more tech-savvy workforce and improving the productivity and profitability of the sector.

Stanley Black & Decker

SB&D welcomed almost 200 auto enthusiasts and tool aficionados to Baltimore in August for the relaunch of the Craftsman tools brand. The festivities included rolling out a lineup of more than 1,200 new products. Former Washington Redskins head coach Joe Gibbs and Richard Rawlings, the star of Discovery Channel's Fast N' Loud, were among those sharing stories of how they grew up using Craftsman tools. The three-day launch event began with a dinner Wednesday night. Allison Nicolaidis, chief marketing officer for global tools and storage, welcomed the trade publication writers, bloggers and Youtube "do-it-yourself" video stars to Baltimore by calling it the "new home of Craftsman". Thursday people had a hands-on experience at Craftsman headquarters, dubbed "The Garage" so people could try out all the tools, which included light-weight cordless drills and a gas-powered lawn mower with a push-button start. After The Garage, people went to the Autobahn Indoor Speedway to race with Joe Gibbs and check out more tools. The evening featured a tour of the city with dinner at Nick's Fish House. The event concluded with a breakfast with automobile designer Chip Foose, star of a TV show on Velocity.

The iconic Craftsman logo has not been redesigned and will remain as is because of its massive brand recognition, according to Gregory Pizzi, group creative manager for Craftsman.

SB&D has doubled their space at the recently renovated downtown Towson, Maryland office building, signing another full-floor lease at the five-story property.

SB&D is paying $690 million for International Equipment Solutions Attachments Group, a manufacturer of heavy equipment attachment tools. IES Attachments' brands include Paladin, which makes excavators, wheel loaders, tractors and truck chassis; Genesis, which makes specialty attachments for the scrap processing, demolition, material handling and decommissioning industries; and Pengo, a manufacturer of augers and related parts for the utility, construction and agriculture markets. IES Attachments will be integrated into SB&Ds hydraulic tools business in the industrial segment.

SB&D awarded their $25,000 VentureClash Innovation Prize to DOZR, a company that has created a new market place for the rental of heavy equipment. VentureClash is managed by Connecticut Innovations. The DOZR platform enables business owners to earn additional revenue from idle equipment and allows contractors to rent equipment at lower rates than traditional rental companies. The finals event in October will be held at the Yale School of Management and feature ten finalists.

TTI/Techtronic Industries

From their Half Year 2018 Conference Call:

First half revenue grew 19.1% to USD $3.4 billion. Milwaukee revenue grew 29.8%; it was Milwaukee's eighth consecutive reporting period of growth.

The Power Equipment division represented 86.4% of revenue, led by Milwaukee. Ryobi's global organic growth rose 20.1%.

They attributed the sales increase to new cordless products, which grew 45% over the last year as well as sales of legacy corded products.

North America represents 76% of the group's revenue, and grew 18.1%. Europe now accounts for 16.2% of revenue.

During the reporting period they increased their R&D spending by 20 basis points to 2.9% of the group's revenue, with particular emphasis on Milwaukee, as they try to position themselves as the leader in cordless technology.

They strategically carried a slightly higher inventory level to support strong sales growth.

They believe Milwaukee top line sales will grow 20% a year even though the base is very large, and they do not plan to make any acquisitions. They also expect gross margins to continue to improve.

They pointed out that while they do manufacture in China, so do all of their competitors, so everyone has to deal with the impact of tariffs. They also believe that any trade war will be a big advantage for them, because they have tremendous flexibility built into their systems.

They have six factories in the US. They have also opened up a new Vietnamese manufacturing operation and have two manufacturing facilities in Europe. They plan an accelerated ramp-up within the US and in low-cost countries such as Vietnam in order to counter the effects of the potential trade war tariffs as well as rising costs in China, where most of their products are currently manufactured.

They have hired an extraordinary number of engineers from top schools and wish they could have hired even more. In R&D they are hiring software development engineers in addition to manufacturing and electrical engineers.

New home construction is only about 7% of their future projections. They also focus on 26 other vertical markets, many of which they believe are much more exciting and have much more potential than home building.

TTI claims that their brands are market leaders, and that Ryobi is the number one brand in the world for DIY tools and Milwaukee professional cordless is now number one in the US, Canada, Australia and New Zealand.

They will hire 530 college graduates this year, about 100 of them outside of the US and Canada, not counting the engineers. The target for engineers is 100 global hires.

Their Canadian operation was described as their "crown jewel." There are no tariffs to deal with and they are number one in the market. The US is also growing, but not as fast as Canada and Europe.

They are converting Verizon's legacy brand of tools to 100% Milwaukee, all cordless, which they described as a major deal. They have also converted San Diego Gas & Electrics entire fleet to Milwaukee from "their enemy," which is how they consistently described competitors. They gave several other examples of global conversions to Milwaukee cordless.

CEO Joe Galli highlighted what he called both the most important developments ever in power tool cordless technology, and also their catalyst for growth beyond five years.

First was the roll out of their third-generation of brushless motor impact drivers. The third generation features 18-volt products that are smaller, lighter, faster and more powerful, with faster charge times, more features and the ability to run with less heat. They likened their generational development approach to Apple iPhones and said they plan to continue to launch new generations of tools.

The second major breakthrough they are launching is five new tools that can replace continuous run time corded tools or gas or hydraulic or pneumatic tools. The 12-amp battery is the first ever, and it is a very sophisticated device with highly advanced software and electronics inside.

People think they are a power tool company but they are a technology company that happens to sell power tools and floor care.

They highlighted several of the tools, including reciprocating and circular saws, chainsaws and large angle grinders.

The fastest growing market in cordless is subcompact, people want smaller, lighter and more ergonomic products.

Many customers enter their system when they buy their Milwaukee heated jacket line, which they referred to as a Trojan horse, because the jacket's battery works in 50 other tools, and will eventually work in 250 other tools.

The DIY market is about one-sixth the size of the professional market, and is not growing nearly as fast. But Ryobi is posting very strong results thanks to the Ryobi ONE+ 18-volt system which offers fully compatible tools that all run on the same battery, including the Ryobi stick vac.

They are growing faster organically than their competitors are growing with acquisitions, adding $2 billion to $3 billion every year in additional value.

Trimble

Q2 revenues rose 19% to $785.5 million. Buildings and infrastructure revenue was up 24% to $274.3 million. According to CEO Steven Berglund, second quarter revenue and income exceeded expectations.

RETAIL

Retail Sales Rise 0.5%

Retail sales rose 0.5% in July after rising a downwardly revised 0.2% in June. Sales were well ahead of expectations and also were up 6.4% from July 2017. Sales increases were broad based and including a 1.3% rise in restaurant sales, which are now up nearly 10% from July 2017. Restaurant and bar sales are regarded as a highly discretionary category where increases indicate consumers are feeling confident and comfortable spending money. Core retail sales, which exclude autos, gasoline, building materials and food sales, also rose 0.5% in July after dropping a downwardly revised 0.1% in June. Online sales rose 0.8% in July and 11.3% year over year. Sales at building material stores were unchanged after rising 2.8% in June and were up 5.8% year over year. Many economists are unsure about how the trade wars and new tariffs will impact retail sales.

NRF Upgrades Forecast

The National Retail Federation (NRF) upgraded its retail forecast for 2018, saying that sales are now expected to increase at a minimum of 4.5% over 2017 rather than the 3.8% to 4.4% range forecast earlier this year, thanks to tax reform and other positive economic inputs. Retail sales grew 4.8% year over year in the first half. NRF warned that despite the upgrade, uncertainty surrounding the trade war and higher inflation could make consumers cautious in the fall and heading into the all-important holiday season.

The Home Depot

Q2 sales rose 8.4% to $30.5 billion, beating expectations of $30.03 billion. Comp store sales rose 8%, well ahead of estimates of a 6.6% increase. Online sales grew 26%. THD raised their earnings forecast for the year. They also expect comp sales growth of 5.3%, up from the previous forecast of 5% growth and total sales growth of 7%, up from the previous forecast of 6.7%.

From their Q2 conference call with analysts:

The majority of sales they missed in the first quarter were recovered in the second quarter; they call that the bathtub effect.

There was broad-based strength across the store and in all geographies.

All three divisions posted positive comps, along with all 19 regions and top 40 markets. Canada posted mid to high single digit positive comps in local currency.

They have now rolled out small parcel express delivery from stores via car and van in nearly all of their major markets, and plan further expansion. They are focused on offering the fastest, most efficient delivery in home improvement.

Their fulfillment center tests are on track, and they opened their first Market Delivery Operation (MDO) during the quarter and plan to add additional facilities in the second half. The build out of the One Home Depot supply chain is truly a collaborative team effort involving the real estate team, the IT team and the supply chain team.

They have implemented their way-finding sign and store refresh package in more than 500 stores so far, ahead of plan, and are very pleased with the customer response to all the improvements. It is much easier to find things in the stores that have been done, and they are more inviting and easier to navigate.

They are also making progress on the rollout of their redesigned front end areas and Buy Online Pickup In Store (BOPIS) lockers, and are only seven months into a planned three-year investment journey.

Comp average ticket increased 4.9% and comp transactions increased 2.9%. Commodity price inflation in lumber, building materials and copper positively impacted average ticket growth by 119 basis points. Tools and appliances had comps above the company average.

Big ticket sales have been redefined and now describe transactions over $1,000 rather than the $900 they previously used. Big ticket sales account for approximately 20% of US sales, and were up 10.6% in the second quarter. Strength with Pros was one of the drivers.

Sales to Pro customers were up in the double digits and sales to DIY customers were solid.

The Home Depot owns and backs the Husky brand of tools and will be introducing some great new innovations in mechanics tools and plumbing tools. All of their Husky brand hand tools are backed by a lifetime warranty and can be replaced at any store.

At the end of the quarter merchandise inventories were up 9.1% to $14 billion. Inventory turns were up one-tenth to 5.4.

They are not concerned about the drop in housing starts and new home sales and feel very positive about the strength of the home improvement market and the customers' willingness to spend. The housing shortage has driven up home values and the appreciation gives homeowners more equity, so they feel more comfortable spending.

The business to business (B2B) website they are developing for Pros is still in the customer intercept and interview phase and they are in testing mode. They may do a small test in Q3 and expect more activity in Q4.

They are at record-high levels of in-stock, which they felt was critically important in order to be able to capture the additional seasonal sales that they expected from the bathtub effect. They are also at a high in-stock because of all the merchandise resets they are doing.

They believe the percentage of sales Pros account for has gone from 40% to 45%.

Improving the website offers unanticipated benefits, as shopping in categories that people actually purchase in store, such as flooring or doors, usually starts online and they are seeing great engagement with the customer across those categories.

Other News:

Robert Bosch announced a new partnership with The Home Depot that brings Bosch home appliances to the world's largest home improvement retailer. Appliances will be available both in-store and online. EVP of Merchandising for the Home Depot Ted Decker said that they were thrilled to be partnering with Bosch and benefitting from Bosch's more than a century of product innovation and engineering expertise.

Lowe's

Q2 sales rose 7.1% to $20.89 billion and comp sales rose 5.2%, below estimates. Lowe's cut their forecast for the year, and now expects sales to rise 4.5% and comp sales to grow about 3%.

From their Q2 conference call with analysts:

This was new CEO Marvin Ellison's first conference call since taking over as CEO July 1, although he was of course not with Lowe's during the second quarter.

Ellison has been traveling extensively around the country to talk with Lowe's customers and conduct town hall style meetings with associates. He noted that being number two in home improvement offers them many opportunities to grow and take advantage of the dedication and skills of Lowe's associates, whom he praised for carrying on despite significant organizational challenges and a challenging competitive environment.

Ellison will focus on better connecting and aligning all their systems to create a world-class omni-channel environment, simplifying the business to produce better and more consistent results and focusing on initiatives that add value and are core to their retail business.

Many executive changes had been announced prior to the conference call. In conjunction with the call, Ellison announced that David Denton will be the new CFO. Denton will join Lowe's from his current position as EVP and CFO of CVS Health at the end of the year after CVS' acquisition of insurer Aetna is completed. Current CFO Marshall Croom is retiring.

They are working aggressively to fill the open position of CIO and expect to have someone named shortly.

BOSCH
Invented for life

They have decided to close all 99 existing Orchard Supply hardware operations so they can focus on their core home improvement business. Stores and one distribution facility are located in California, Oregon and Florida. Their strategic assessment showed that investing the intellectual and financial capital that would be needed to grow Orchard Supply into the most dominant small box specialty home improvement retailer would make a very minimal impact overall on Lowe's business and that capital could be better spent elsewhere.

They are eliminating about $500 million in planned capital projects for 2018 that did not meet their new criteria, and will reallocate those funds to share repurchase.

The new leadership team has been charged with the task of developing an aggressive plan to rationalize store inventory to remove clutter and reduce lower performing inventory so they can invest in improved job lot quantities for Pros and increase the depth of inventory in their top 2,000 high-velocity SKUs.

Total transactions grew 1.3% and average ticket grew 5.8% to $75.53.

They drove market share gains across all major categories when they introduced Craftsman. They are excited about the continued rollout of Craftsman over the second half. They will also be leveraging their exclusive relationship with Sherwin-Williams.

Pro demand and inflation drove strong comps in rough plumbing and electrical and lumber and building materials.

They are working diligently to simplify the reset process as it adversely impacted performance in some categories.

Pro is a huge opportunity for them; right now about 30% of sales come from the Pro segment. In addition to inventory issues and job lot quantities, they need the brands Pros want, and they are already analyzing their brand gaps and what they need to fill them.

They are not going to "throw payroll" at problems, but rather take the time to identify root causes and then come up with solutions.

Ellison said that he believes the challenge today is less about the competition and more about looking within and asking where they can be better. He acknowledged that they have a disadvantage in real estate locations in metro areas compared to Home Depot, especially in the Northeast and West Coast.

They created some issues with their online business that resulted in a significant number of order cancellations and had a dramatic impact on overall internet sales, but now they have an opportunity to overcome some of the problems, particularly poor execution. They are assembling what Ellison called a very impressive team of online experts from some impressive competitors as well as a lot of other different backgrounds. The biggest opportunity is making the site more user friendly from search to navigation to checkout, and they have a very specific roadmap to do that. The second big challenge is seamlessly connecting their digital and physical footprints. Roughly 60% of ecommerce transactions are picked up in store, which offers them a significant number of opportunities.

Ellison thinks their overall challenge is less about overspending than it is about making better strategic choices concerning what they spend their money on.

Ellison noted that they have very impressive competitors and if they are going to gain market share, they have to be very customer focused. They also have to learn to excel at what he called "retail fundamentals" while making strategic plans and investments that will help them grow share in the long run.

He is very pleased with his conversations with the suppliers he's been able to spend time with so far; with Mike McDermott handing the reins over to Bill Bolts, they will be spending more time with both existing suppliers and with suppliers that they don't currently work with to see if they can add additional brands that resonate with their DIY and Pro customers.

Walmart

Q2 sales rose 3.8% to $128 billion, beating estimates of $125.97 billion, and comp store sales rose 4.5%, nearly double analysts' expectations. WM also raised their forecast for annual comp store sales, and now expects them to rise about 3% in fiscal 2019, up from previous estimates of 2%.

Ecommerce sales grew 40% during the quarter, up from

33% growth in the first quarter. WM expects online sales to grow 40% for this fiscal.

Foot traffic grew 2.2% and average ticket rose.

Walmart says they are experiencing significant margin pressures driven by cutting prices, higher freight costs due to a shortage of truck drivers and ecommerce investments.

Walmart is now selling high-end brands like Ray-Ban and Calvin Klein, thanks in part to their new partnership with Lord & Taylor, which give customers access to 125 high-end brands without the high-end price tag.

Sears

Sears plans to close an additional 46 stores in November. There appears to be no end in sight to the closures, as Sears says they are continuing to evaluate their store network and will make further adjustments as needed. In January, Sears announced it would close more than 100 stores this year. They announced another round of about 100 store closures in May, when the store count was 894. Sears is still testing new concepts, like stand-alone mattress stores and combined Sears and Kmart locations, but retail analysts say it will be hard for the company to bounce back from its dire situation.

Sears is reportedly evaluating a bid from CEO Eddie Lampert's hedge fund, ESL Investments, to buy the Kenmore appliance brand from Sears for $400 million. Sears shares have fallen more than 85% over the past 12 months, bringing the company's market cap to roughly $123 million, or less than Lampert is willing to pay for the Kenmore brand.

Sears will continue to sell their versions of Craftsman tools in Sears and Kmart stores as well as Sears Hometown and Outlet. All other retailers will have the new Craftsman line designed and produced by Stanley Black & Decker. The media coverage noted that having competing and different versions of the same product sounded like a recipe for brand disaster, but Sears says they are not concerned, and said both companies agreed to a set of brand standards and guidelines. SB&D will pay Sears royalties on all Craftsman tools sold for 15 years.

Sears has expanded their program to install and balance tires for customers who buy tires on Amazon to hundreds of additional stores and says the response from Amazon customers has been extremely positive. The test was originally launched at 47 Sears stores.

ACE Hardware

Q2 revenues rose 6.4% to $1.59 billion. US comp store sales rose 3.3%. Net income grew 7.2% to $54.8 billion. Comp sales of the 3,000 Ace retailers who share daily retail sales data rose 3.3%, due to a 4.1% increase in average ticket, partially offset by a 0.8% decrease in comp store transactions. There was growth across all of Ace's business units. They added 39 new domestic stores in the second quarter and cancelled 34 stores, leaving the total domestic store count at 4,423, an increase of 66 stores from Q2 2017. Revenue increased 21.6% to $109.8 million at Westlake Ace Hardware, also known as Ace Retail Holdings. The increase was fueled by new store growth.

Ace highlighted a wide variety of dealer success stories during the co-op's Fall Convention in Chicago, and also addressed some challenges. One big challenge is the disappointing performance of the supply chain during the recent high-demand spring selling season. CEO John Venhuizen noted that the supply chain did not meet their high expectations in several areas of the country. Rapid growth, an unprecedented surge in demand spurred by the late spring, a shortage of truckers and high turnovers in distribution centers was exacerbated by labor shortages and very low unemployment across the country.

Ace added $150 million in inventory to retail support centers and established new rules that penalize vendors for late shipments. The new rules have led to a 10% improvement in on-time shipments. Ace has also instituted a retention bonus to reduce turnover in their DCs and moved up the expansion of their Ohio facility by a year.

Ace launched their new hyper-localized Acehardware.com website July 30th, and reported that web traffic was up 34% in the second quarter from the same period last year.

Within the next two months Ace will launch an Uber-like tool called "Where's my truck?" that shows retailers the location of delivery trucks. CEO John Venhuizen emphasized that they need to invest for the long-haul, and think in quarter-centuries, not quarters.

Ace is committed to implementing what they called a

"Logistics Revolution" in 70% of the country by the second quarter of 2019 that will make Ace faster than Amazon on the 100,000 items Ace stocks.

True Value

For the first time in their history, True Value will open their semi-annual Reunion to all independent hardware dealers. The reunion is scheduled for the end of September in Denver, Colorado. It will be the first Reunion since True Value reorganized itself into what they call the only hardlines wholesaler that offers access to a globally recognized brand with no investment required. Throughout the three-day event attendees will have access to nearly one million square feet filled with attendee-only deals.

Amazon

At least eight top execs have left Amazon in the past six months. Amazon Prime chief Greg Greeley joined Airbnb as president of the homes division, Sebastian Gunningham stepped down as SVP of Amazon seller services to become WeWork's vice chairman, and Sanjay Shah, VP of North American fulfillment centers joined Tesla. Amazon has also lost senior people to Snapchat, German ecommerce company Zelando and SoFi. Amazon says that they have a more than 95% retention among vice presidents, and approximately 100 executives who left Amazon eventually returned. The phenomena is so common, Amazon refers to them as boomerangs. Analysts noted that tech people are also taking sabbaticals now, as they know getting another job will be easy. They also acknowledge that some of the departures may be due to the impending creation of HQ2, Amazon's second North American headquarters. Amazon says they will not require anyone to move, but will allow existing senior leaders across the company to decide whether to locate their teams in HQ1, HQ2 or both.

Amazon is merging their ad business into one platform under Amazon Media Group so that advertisers will be able to buy campaigns from the same place, whether they sell their products directly to the site (shown as Sold by Amazon) or directly to Amazon shoppers as third-party sellers. The Media Group will consolidate Amazon Marketing Services and Amazon Advertising Platform divisions under one banner. While there could be some short-term impact, in the long run centralizing branding, content product creation merchandising and advertising should make it easier for brands to see the total traffic to their products and identify where that traffic is coming from. Amazon has been working at giving both first party and third party sellers access to the same features. Amazon generated $2.2 billion in ad revenues in the latest quarter, while Google and Facebook posted $28 billion and $13.3 billion, respectively. One industry analyst said that Amazon's ad business was still "in the awkward toddler stage" compared to its more mature rivals.

Amazon is looking to fill more than 200 full-time positions with benefits with employees who would work from home. Nearly all of the positions are for jobs in customer service, sales and human resources. The full-time employees hired will be eligible for all the usual Amazon benefits, including medical, dental and paid time off.

Amazon's pilot training program designed to turn veterans into technologists graduated its first five students, who all joined Amazon Web Services as full-time employees. Amazon says this is just the beginning. Amazon enlisted the help of Apprenti, the apprenticeship program overseen by the Washington Technology Industry Association, which is partly funded by the federal government. The White House has pushed for companies to hire more veterans.

Amazon is expanding their alliance with Kohl's, with 100 Kohl's locations now accepting Amazon returns. Kohl's started the test with Amazon return centers at 21 stores in July. A total of 82 of the locations are in Chicago and Los Angeles; ten of them also have Amazon "smart home" shops selling items such as Echo speakers, Fire tablets and Kindle readers.

CANADA SNAPSHOT

Interest Rates

Most economists predict that rates will be increased in October, rather than at the next Bank of Canada (BoC) rate announcement in September. The central bank raised rates for the fourth time in a year in July and has indicated that more rate increases are coming as they attempt to keep the economy from overheating, but the latest GDP report showed that the economy was growing but not overheating.

Unemployment Rises to 6.0%

The unemployment rate rose to 6.0% in August after falling to 5.8% in July and the economy lost 52,000 jobs, according to Statistics Canada's latest labour force survey. Employment was up 0.9%, or 172,000 jobs, from August 2017. Employment declined in Ontario and rose in Alberta and Manitoba. Employment was little changed in other provinces. Construction lost 16,000 jobs, but construction employment was little changed from August 2017. Employment in building, business and support services rose by 10,000, bringing year-over-year gains to 26,000 or 3.4%.

Consumer Confidence Drops to 54.21

Consumer Confidence in Canada decreased to 54.21 in July after rising to 55.83 in June. Consumer Confidence in Canada averaged 53.34 from 2010 until 2018, reaching an all-time high of 56.43 in April 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 3.0%

The consumer price index (CPI) rose 3.0% in July after rising at an annual pace of 2.5% in June, according to Statistics Canada. All eight components rose in July, but the biggest contributor to the increase was the 8.1% increase in the transportation sector. It was the fastest pace of acceleration since 2012, and about twice the median forecast from economists. On a seasonally adjusted monthly basis, the CPI rose 0.5% in July after rising 0.2% in June.

GDP

Canada's GDP rose 2.9% in the second quarter, up from 1.3% growth in the first quarter. It was the fastest pace of growth in a year, and analysts said should end speculation that Bank of Canada (BoC) might raise interest rates in early September, as GDP met the bank's expectations. Exports surged 2.9% from the first quarter. Household spending was the second largest contributor to growth, suggesting that strong employment is bolstering domestic demand. Business investment fell, however, with business investment in non-residential structures and machinery and equipment growing only 0.5% after expanding at least 1.5% in each of the previous five quarters. The BoC expects business investment to drive growth, so the slowdown could be troublesome.

Canada/ US Trade Updates

If NAFTA is fully revoked, a study by the Bank for International Settlements (BIS) a group comprised of the world's central banks, found that scrapping NAFTA would cause Canada's GDP to decline 2.2%, or US$37 billion, compared with declines of 1.8% (US$22 billion) for Mexico and 0.22% (US$40 billion) for the US. Canada's vulnerability in the auto sector was cited as the main reason for the big difference. The BIS urged resolution, stating that revoking NAFTA would create only losers, with resulting wage gains in domestic industries being more than offset by the damaging effects of reduced export opportunities and the increased cost of imported inputs for manufacturing firms.

The US and Mexico struck a tentative deal to create their own trade agreement near the end of August, pressuring Canada to negotiate more rigorously.

Ontario's new government is scrapping the province's basic income pilot program, which began in April 2017 and was set to last three years, calling it expensive and unsustainable. The decision brings an end to North America's trial of the concept of providing everyone with a government-backed basic income.

Canada's government is scaling back elements of its planned carbon tax program to address worries from the business community about global competition, according to the *Wall Street Journal*. Under the changes, industrial companies would now have 20% of emissions subject to the levy versus the original 30%. The carbon tax takes effect next year, and starts at C$10 a metric ton and rises gradually to C$50 by 2022.

Saudi Arabia severed all new business and investment transactions with Canada after the government in Ottawa expressed concern over recent arrests of social and women's rights activists in the kingdom. It also gave the Canadian ambassador 24 hours to leave the country and recalled its own ambassador to Canada, saying it retained "its rights to take further action."

Housing and Construction News

Canada's housing starts dropped more than expected in July, falling to a seasonally adjusted annual rate of 206,314 units in July after rising to totaled 248,138 units in June. The seasonally adjusted six-month moving trend for Canadian housing starts dropped to 219,988 units in July, down from 221,738 units in June. Canada Mortgage and Housing Corp (CMHC) noted that despite the decrease in July the trend remains well above historic averages, reflecting elevated levels of multi-unit starts in most markets. Housing inventories are well below their long-term average as demand absorbs supply. Building permits for residential properties have been trending higher, and analysts say the forecast for 208,000 units for the year will likely be revised up.

Home sales rose 1.9% in July after rising 4.1% in June, according to the Canadian Real Estate Association. The Greater Toronto Area led the increase in July, but more than half of all local housing markets reported rising sales. Sales were down 1.3% from July 2017 due to fewer sales in major urban centres in British Columbia. The national average price for homes sold in July was up 1% to $481,500, significantly higher than the average home price in the US. However, some of that high price tag comes from hot markets in British Columbia and Ontario; excluding them, the national average price was just under $383,000. Both BC and Ontario have introduced a foreign-buyers tax.

Retail Sales Fall 0.2%

Retail sales fell 0.2% in June to $50.7 billion after increasing an upwardly revised 2.2% in May. Sales were down in six of 11 subsectors, representing 52% of retail trade. Sales were also down in six provinces, but rose in Ontario, Manitoba, Toronto and Saskatchewan. After removing the effects of price changes, retail sales dropped 0.3%. On a quarterly basis, retail sales were up 1.0% in the second quarter after dropping 0.5% in the first quarter. In volume terms retail sales rose 0.9% during the second quarter. On an unadjusted basis, retail ecommerce sales totaled $1.4 billion, representing 2.6% of total retail trade. On a year-over-year basis, retail ecommerce rose 18.0%, while total unadjusted retail sales increased 4.2%. 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 second quarter revenue rose 3.2% to $3.48 billion, but April weather caused second quarter profits to drop by about 20% compared to second quarter 2017. Many of Canadian Tire's products are highly seasonal. Executives also said they would be closely watching tariffs Canada placed on some good being imported from the US.

Lowe's announced that Canada and Rona has been very positive for them and the overall integration is happening well. The introduction of unique and different categories like appliances has been very well received by customers, and they feel very good about the overall business.

Walmart reached agreements to sell their banking operations in Walmart Canada and Walmart Chile.

Amazon Canada introduced a monthly option for Amazon Prime members. People can choose to pay $7.99 per month or $79 annually. Both subscription fees are lower than Amazon's $12.99 monthly and $119 annual subscription fee for US customers.

MARKET TRENDS

Remodeling Market Forecast

The remodeling market should be strong through at least the middle of 2019, according to a new report from Harvard University's Joint Center for Housing Studies. The center forecasts that homeowner spending on improvements and repairs will rise at an annual rate of 7.2% over the next four quarters, up from 6.6% during the previous four. The strong job market and strengthening economy have encouraged owners to invest in their homes. Homeowners have also been fixing and improving their homes and apartments because they expect to stay put for the foreseeable future. Many people can't afford a new home, or at least cannot afford the home they would like. So instead they renovate kitchens and bathrooms, replace roofs and windows and add room additions and decks. Rising values give homeowners "permission" to invest in larger projects.

Ecommerce Forecast

Amazon will capture 49.1% of all ecommerce sales in 2018,

according to new research from eMarketer, which specializes in data in the digital marketplace. Amazon's closest competitor is seen as eBay, which is expected to capture 6.6% of sales, followed by Apple with 3.9% and Walmart with 3.7%. The following six retailers in the top ten, which includes The Home Depot, are all predicted to capture between 1.1% and 1.5% of total online sales. According to eMarketer, Amazon already controls nearly 5% of the total US retail market, including both online and offline. They also expect Amazon ecommerce sales to rise 29% this year to $258 billion.

Retail Renaissance

Analysts hailed outstanding quarterly results from Walmart and Target as evidence that "retail is back." Analysts say that the current tough competitive environment is weeding out troubled retailers and causing others to step up their game, sprucing up stores, adding more ecommerce delivery options and improving service with better-trained and higher-paid employees. Target CEO Brian Cornell said it was possibly the strongest consumer environment he's seen in his 37-year career. GlobalData Retail said that the American retail sector is enjoying a renaissance, and the retailers who are excelling are spending billions to tailor a better shopping experience and deflect the threat from Amazon. Retailers who can't afford to invest in the store experience will ultimately lose the battle for the consumers' wallet.

The Last Mile

The Last Mile is how the ultimate journey from the retailer to the customer's home or business is described; Last Mile is a space traditionally dominated by the USPS, FedEx and UPS; now everyone is fighting to claim a share. Amazon has been exploring air and land drone delivery, lockers in pre-designated urban locations, partnerships with traditional retailers like Kohl's and their own fleet of Uber-like Amazon drivers. Large retailers such as Walmart, Best Buy and home improvement giants use their stores as distribution centers. One of the benefits of retailers taking control of the last mile is the ability to send orders out of locations with the appropriate inventory and fulfill orders for items that are out of stock in physical stores.

Top Home Improvement Stores with Consumers

Ace Hardware is the consumers' choice for home improvement, according to the latest ranking from Market Force. Ace dominated the home improvement category, with a composite customer loyalty score of 68%, besting Menards at 58% and Lowe's at 54%. Home Depot came in fourth at 54% and Walmart trailed with 36%. Ace was also first in scores for several attributes that mattered most to customers, including value for the price, store cleanliness, checkout speed, store layout and merchandise availability. Menards tied with Ace for first place for merchandise variety. Lowe's took second place for merchandise availability and store layout and came in fourth for value for price. Market Force said that Ace may have outscored the larger-format stores because service is very important to people on the store level, and the customer experience relies on being able to find what you need and someone to help. The survey was conducted online in June 2018 and represented a cross-section of the four US Census regions and a broad spectrum of income levels, with 55% reporting annual household incomes of more than $50,000. Customers particularly liked Ace's loyalty program, with 70% choosing it. Lowe's ranked second in that category for their MyLowe's program, with 28% of the votes.