

Market Briefing

Content

US Economy	2
Housing & Construction	4
Power Tool Industry	5
Retail	7
Canada Snapshot	9
Market Trends	10

US ECONOMY

- Consumer Confidence Drops to 124.1
- Consumer Spending Rises 0.1%
- Consumer Prices Rise 0.2%
- Unemployment Steady at 3.8%
- Durable Goods Orders Fall 1.6%
- Chicago PMI Drops to 58.7
- Wholesale Prices Rise 0.1%
- Q4 GDP Revised Down to 2.2%

HOUSING & CONSTRUCTION

- Housing Starts Rise 18.6%
 - ▶ Single-family sales jump 25.1%
- Building Permits Rise 1.4%
 - ▶ Single-family permits fall 2.1%
- New-Home Sales Rise 4.9%
- Existing Home Sales Rise 11.8%
- Builder Confidence Steady at 62
- Mortgage Rates Drop to 4.06%

POWER TOOL INDUSTRY

Robert Bosch

- ▶ Featured at IoT Workshop
- ▶ Invests in AI startup
- ▶ Presents “Factory of the Future”

Stanley Black & Decker

- ▶ Raymond James Conference
- ▶ Sues Sears
- ▶ Acquires Paladin and Pengo SBUs
- ▶ Corporate Equality Index

TTI/Techtronic Industries

- ▶ Full-year 2018 Conference Call
- ▶ South Carolina distribution center

RETAIL

Retail Sales Fall 0.2%

Walmart

- ▶ UBS Global Conference
- ▶ Plans to hire 900 new truck drivers
- ▶ Brings digital ad business in-house

Ace Hardware

- ▶ Highlights from Spring Convention

True Value

- ▶ Hi-tech distribution center
- ▶ Habitat for Humanity program

W.W. Grainger

- ▶ 2018 sales rise 8%

Amazon

- ▶ Closes 80 pop-up stores
- ▶ Alters third-party seller agreement
- ▶ Selling Partner summits sell out
- ▶ Stops selling Dash buttons
- ▶ Hires remote customer service reps

CANADA SNAPSHOT

Economy

Housing & Construction

Retail

MARKET TRENDS

Home Design Trends

Aging in Place

Delivery Trends

The Humanization of Digital Assistants

Canada’s Tech Future

China Top Retail Market

Best Buy’s Journey from Retail-Focused to Customer-Driven

Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

Robert Bosch Tool Corporation

1800 W Central Rd
Mount Prospect, IL 60056 USA
www.boschtools.com
PTNA.Marketing@us.bosch.com

© Robert Bosch Tool Corporation. All rights reserved.
No copying or reproducing is permitted without prior written approval.

US ECONOMY

Exchange Rates March 29, 2019

Euro	1 Euro = \$1.123	\$1.00 = 0.891 Euros
Canadian Dollar	1 CAD = \$0.748	\$1.00 = 1.335 CAD
Japanese Yen	1 Yen = \$0.009	\$1.00 = 110.702 Yen
Chinese Yuan	1 Yuan = \$0.149	\$1.00 = 6.713 Yuan
Mexican Peso	1 Peso = \$0.052	\$1.00 = 19.397 Pesos

Market Watch March 29, 2019

DOW	25,928	0.1%
NASDAQ	7,729	2.6%
S&P 500	2,834	1.8%

The markets were all up modestly in March but turned in the best first quarter in decades after a rocky end to 2018, with all three indexes posting gains of more than 10%. The S&P, the broadest measure of large-cap stocks and the index most watched by analysts, rose 13.1% for the quarter, its biggest quarterly rise since 2009. The DOW rose 11.2% and the tech-heavy NASDAQ rose 16.5%. The markets were cheered by the Fed's promise to hold off raising interest rates and fresh signs that inflationary pressures are under control. The positive close to the month came after stocks fell sharply March 22 as disappointing news from Europe and an inversion of the US Treasury yield curve heated up concerns about global growth. The yield curve inversion means the yield on a 10-year T-note is below the yield on the 3-month T-bill. Inversion is seen as a reliable indicator of a recession, typically preceding the downturn by a year or more. However, many analysts don't believe the yield curve is an accurate predictor of recession under the current economic circumstances of solid job growth and low inflation.

Consumer Confidence Drops to 124.1

The New York-based Conference Board's Consumer Confidence Index dropped to 124.1 in March after rising to 131.4 in February, according to the Conference Board's latest survey. Analysts had expected the index to remain about the same. The Present Situation Index, which is based on consumers' assessment of current business and labor market conditions, dropped to 160.6 after rising to a downwardly revised 172.8 in February.

The Expectations Index, which is based on consumers' short-term outlook for income, dropped to 99.8 in March after jumping to an upwardly revised 103.8 in February. The Conference Board noted that confidence was adversely affected by the stock market plunge at the end of 2018 and a host of other economic uncertainties, and confidence has generally been softening since reaching a high of 137.9 last October. 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 0.1%

Consumer spending rose just 0.1% in January after dropping a downwardly revised 0.6% in December. Economists had expected consumer spending to grow 0.3%. The release of January figures was delayed by the government shutdown that ended January 25. Core consumer spending also rose 0.1% after dropping 0.6% in December. Spending on goods fell 0.2% in January after dropping an upwardly revised 2.4% in December. Spending on services rose 0.2% after rising an upwardly revised 0.3% in December. With demand softening, inflation pressures were moderate, with the personal consumption expenditures (PCE) price index excluding the volatile food and energy components rising 0.1% after rising 0.2% in December. That dropped the annual increase in core PCE to 1.8% from 2.0% in December, only the second time core PCE has been at 2.0% since April 2012. The core PCE index is the Fed's preferred inflation measure. Personal income increased 0.2% in February after falling 0.1% in January. Wages rose 0.3% in February, matching January's gain. Savings fell to \$1.19 trillion in February from \$1.22 trillion in January. Consumer spending reports are lagging due to the government shutdown.

Consumer Prices Rise 0.2%

The Consumer Price Index (CPI) rose 0.2% in February after being flat in January. The CPI was up 1.5% over the past twelve months, down from a 1.6% annual increase in January. Core inflation, which excludes food and energy, rose 0.1% in February after rising 0.1% per month during each of the previous four months. Core CPI was up 2.1% year over year, after being up 1.9% in January. The strengthening dollar is also depressing inflation. The Fed expects inflation to be tame for what they described as "a time" due to declining energy prices.

Unemployment Remains at 3.8%

The unemployment rate remained at 3.8% in March after falling in February. The economy added 196,000 new jobs, a big improvement from the upwardly revised 33,000 jobs added in February. Job gains for January were also revised up slightly. February's soft job gains had caused some economic jitters, but analysts say it was just a "blip" and they do not see any drop in demand for workers. Payrolls increased in construction after dropping by 31,000 in February. Through the first three months of the year, employers added an average of 180,000 new jobs each month, a slowdown from the 223,000 jobs, on average, added each month in 2018. The job situation has gotten tight enough some companies are shifting customer advertising dollars to recruitment efforts like job fairs and recruiters are working hard to keep applicants interested and urging employers to act quickly if they want someone. The job report is a good reinforcement for the Fed's wait and see policy, and gives them no reason to contemplate raising rates any time soon. Hiring has eased modestly in some industries because it has been very hard to find workers at the wages some companies are willing to pay. Average hourly earnings rose four cents an hour in March to \$27.20, and year-over-year wage gains are well ahead of the rate of consumer price increases. The economy needs to create about 120,000 new jobs each month to keep up with growth in the working-age population.

Durable Goods Orders Fall 1.6%

Durable goods orders fell 1.6% in February after rising a downwardly revised 0.1% in January and were up 2.6% year over year. It was the first decline in durable goods orders in the past four months. Orders ex transportation rose 0.1% after falling 0.1% in January. Core durable goods orders for non-defense capital goods excluding aircraft, widely regarded as a key indicator of business spending, fell 0.1% in February after jumping an upwardly revised 0.9% in January. Nondefense capital goods shipments, which factor into GDP, were steady after rising 0.8% in January. The durable goods report is volatile and often subject to sharp revisions.

Chicago PMI Falls to 58.7

The Chicago Purchasing Managers' Index (PMI) fell 6 points to 58.7 in March after rising to 64.7 in February. It was the 26th consecutive month the PMI was above 50, the level that indicates growth. Production and New Orders fell back from big increases in February but remained well above their Janu-

ary levels. New Orders continue to lag. Order Backlogs shrank the most, and actually fell into contraction territory for the first time since January 2017. The Prices Paid indicator fell sharply, hitting the lowest level since August 2017. The PMI averaged 60.1 in the first quarter, down 3.5% from the fourth quarter and 3.3% from the first quarter of 2018. Overall, firms remain optimistic about their business prospects, although enthusiasm has moderated since last year.

Wholesale Prices Rise 0.1%

The Producer Price Index (PPI) rose 0.1% in February after falling 0.1% in January and 0.2% in December. The PPI was up 1.9% from February 2018. Core producer prices, which exclude food, energy and trade services, rose 0.1% in February after rising 0.3% in January and were up 2.5% from February 2018. The Labor Department said that the increase was fueled by rising prices for gas, lodging and airplane tickets.

Q4 GDP Revised Down to 2.2%

GDP growth was revised down to 2.2% in the fourth quarter from 2.6% growth reported in the second estimate, according to the Commerce Department. The downward revision was greater than economists had expected. GDP grew 2.9% in 2018, the best performance since 2015 and much better than the 2.2% the economy grew in 2017. Consumer spending increased at a downwardly revised 2.5%, after growing 3.5% in the third quarter. The Congressional Budget Office (CBO) estimated that the 35-day government shutdown will cost the government about \$3 billion and will shave about 0.4% from annualized GDP in the first quarter. Current estimates for first quarter GDP are as low as 0.9%. Economists believe a big slowdown in China's economy and slower growth in Europe are reducing demand for American exports and making companies more reluctant to begin long-term projects. Consumer spending accounts for more than two-thirds of US economic activity.

Job Openings Rise

The number of job openings rose by 102,000 to 7.6 million in January after jumping to 7.3 million in December, according to the most recent Job Openings and Labor Turnover Survey (JOLTS). There were about one million more job openings than there were people available to hire. The labor market has enjoyed a record 101 consecutive months of job gains, but the growing shortage of workers is expected to slow job growth

down to about 150,000 jobs per month. Nearly 3.5 million people quit their jobs in January, up 2.9% from December, which may cause employers to increase wages in an attempt to retain workers.

Fed Leaves Rates Unchanged

As widely expected, the Fed left interest rates unchanged at 2.25% to 2.5% when the Fed Open Market Committee met in mid-March. However, the Fed also downgraded their view of the US economy, trimming the forecast for GDP growth this year down to 2.1% from the previous forecast of 2.3%, stating that economic growth has slowed. The Fed also trimmed the forecast for PCE inflation for this year and next year, and sees unemployment remaining around 3.8%. In December, forecasters felt that unemployment might drop as low as 3.5% this year. Forecasters also believe it is quite possible the Fed will not raise rates at all this year.

HOUSING & CONSTRUCTION

Housing Starts Rise 18.6%

Housing starts rose 18.6% in January to a seasonally adjusted annual rate of 1.23 million units from a downwardly revised reading in December. **Single-family starts jumped 25.1%** in January to 926,000 units after dropping to 758,000 units in December. The big increase ended four consecutive months of declines. Multifamily starts rose 2.4% in January to a seasonally adjusted annual rate of 304,000 units after falling to a downwardly revised reading in December. NAHB expects single-family production to be relatively flat in 2019 and also expects multifamily starts to level off. Housing affordability will be the biggest challenge facing builders as they deal with a shortage of construction workers and a lack of buildable lots. **Regional starts were mixed.** Single-family and multifamily housing starts jumped 58.5% in the Northeast, 29.3% in the West and 13.8% in the South. Starts fell 5.7% in the Midwest.

Building Permits Rise 1.4%

Building permits rose 1.4% in January to 1.35 million units after inching up to a seasonally adjusted annual rate of 1.33 million in December. **Single-family permits fell 2.1%** to 812,000 units, the lowest level since August 2017. Multifamily permits rose 7.2% to 533,000 units. **Regional permits were mixed.** Permits rose 33.1% in the Midwest and 26.4% in the

Northeast. Permits fell 8.9% in the West and 3.5% in the South.

New-Home Sales Rise 4.9%

New Home sales rose 4.9% in February to a seasonally adjusted annual level of 667,000 units and January sales, which were initially reported as dropping to 607,000 units, were revised to show an 8.2% increase in sales. The inventory of new homes for sale was 340,000, a 6.1-months' supply at the current sales pace, a number that has remained fairly steady since December. The median sales price dropped to \$315,300 in February, and has been dropping since December as more activity has been occurring in the \$200,000 to \$400,000 price range. **Regional new home sales were mixed.** New home sales were flat in the West. Sales rose 26.9% in the Northeast, 28.3% in the Midwest and 1.8% in the South. 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. Sales analysis for both January and February was delayed by the government shutdown.

Existing Home Sales Rise 11.8%

Existing home sales rose 11.8% in February to a seasonally adjusted annual rate of 5.51 million units after falling to 4.94 million units in January. Sales were down 1.8% from February 2018. Single-family home sales rose 13.3% in February to a seasonally adjusted rate of 4.94 million; sales of condos and co-ops were unchanged. **Regional sales were mixed.** Sales were unchanged in the Northeast. Sales rose 9.5% in the Midwest, 14.9% in the South and 16.0% in the West. Inventory levels rose 3.2% from February 2018 to 1.63 million homes, but remain low by historical standards. Unsold inventory is at a 3.5-month supply at the current sales pace, down from 3.9 months in January but up from 3.4 months in February 2018. February marked the 84th consecutive month of year-over-year increases in home prices, but the pace of home appreciation has definitely moderated and homes are remaining on the market longer.

Builder Confidence Steady at 62

Builder confidence held steady at 62 in March after rising in January and February, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). The gradual decline in mortgage rates and strengthening job market are both positive signs for future sales. Builders report that

sales are stabilizing and that demand for homes at lower price points remains very strong, but those types of homes are in short supply and buildable lots remain scarce. Scores for the HMI components were mixed. The index measuring current sales conditions rose two points to 68, the component gauging expectations in the next six months rose five points to 71 while buyer traffic gave back February's gains and fell four points to 44. **The three-month moving averages for regional HMI scores were mixed.** The Northeast rose five points to 48, the South was up three points to 66 and the West increased two points to 69. The Midwest fell one point to 51.

Mortgage Rates Drop to 4.06%

A 30-year fixed-rate mortgage (FRM) fell to 4.06% at the end of March after falling to 4.35% at the end of February, marking the fourth consecutive month rates have declined. The 30-year FRM was 4.44% at the end of March 2018. Rates dropped a full quarter-point the last week of March, the biggest one-week decline in a decade, leaving rates at the lowest average they've been since January 2018. Rates have been declining along with the yield on the 10-Year Treasury note. Many lenders have been advertising rates below 4%, and both mortgage applications and refinancing applications have jumped. Housing analysts speculate that the drop in rates may result in a burst of activity that will lead to a strong spring selling season.

POWER TOOL INDUSTRY

Robert Bosch

Leaders from Bosch were key presenters at the Internet of Things (IoT) workshop hosted by the Robert C Byrd Institute (RCBI). Attendees learned what IoT actually is, how to apply the technology to their own manufacturing operations and how to achieve strategic advantages by connecting physical and digital technologies to improve efficiency, promote innovation and reduce costs. The IoT workshop was the first of several workshops in the Industry 4.0 series.

Robert Bosch has invested in Chinese artificial intelligence start-up AutoAI Co. Bosch expects the investment to improve the competitiveness of their AI offerings.

Bosch presented the "Factory of the Future" at Hannover

Messe, the world's leading trade show for industrial technology. Bosch envisions a future with autonomous transport vehicles that deliver components to digital workspaces, robotics solutions that support workers in manufacturing and quality inspections performed with the help of artificial intelligence. Thanks to 5G networks, communication between machine and systems is running smoothly and in near real time. Bosch believes that AI is a key technology of the future, and with the help of AI, machines can learn to be smart and anticipate. Their goal is that by the middle of the next decade all Bosch products will be equipped with AI, or AI will have played a part in their development and manufacture. Bosch has pioneered many Industry 4.0 applications already, and by 2022 Bosch expects to generate sales of more than one billion euros with Industry 4.0.

Stanley Black & Decker

Raymond James Institutional Investor's Conference:

SB&Ds goal is to be regarded as a leader in innovation, not just within their market segments, but in the larger universe.

In 2019 they will focus on organic growth and returning to margin expansion within the first half of the year. Approximately 50% of their free cash flow goes back into the business and 50% goes to shareholders.

They will continue to roll out five to seven new products each year using their FlexVolt technology.

Getting into the Craftsman business gave them an opportunity to get into the outdoor category in a big way. Before they bought a stake in outdoor products manufacturer MTD their outdoor products were all hand-held. If their 20% investment goes well, in the next three to four years they will exercise their option to purchase the remaining 80% of the company.

They plan to double their revenue to \$22 billion by 2022. Stanley Fulfilment 2.0 is the operating model that really cuts across all of their businesses and will allow them to reach their goal.

They rolled out some new pricing for the Tools segment at the beginning of the year. For the last few years Tools has been close to 7% organic growth, but they expect that to drop to 5% to 6% growth this year.

Their working capital returns need to improve. They used to be in the tens; lately they have been in the eights. They would like to get them back closer to ten.

Sometimes they have to take market action in response to what their competitors are doing. Their competitors all run their businesses using different business models.

Sometime in the next 18 months they will have another big innovation to announce, most likely in the Tools business. They define breakthrough innovation as something with the opportunity to generate a minimum of \$100 million in revenue.

They are expecting a slow, modest growth environment this year, and are not anticipating a recession.

Other News:

SB&D is suing Sears for violating their agreement that limited how Sears could market the Craftsman brand of tools. Stanley cited unflattering social media posts to prove that Sears is causing confusion among customers by positioning Sears as “the real home of the broadest assortment of Craftsman.” Sears emerged from bankruptcy February 8 and is once again under the leadership of Eddie Lampert. They recently introduced a line of professional-grade mechanics’ tools under the sub-brand “Craftsman Ultimate Collection.” SB&D has asked the courts to impose a temporary halt on Sears’ marketing, advertising and sales of the collection until the case can be heard. As long ago as last August a Sears blog post claimed that Sears still had the largest Craftsman selection of any US retailer, and referred to Sears as the “original” and “real” home of Craftsman. SB&D says their agreement with Sears puts limits on how Sears can use the Craftsman brand and the new collection is in violation of that agreement.

SB&D acquired Paladin and Pengo Business Units of International Equipment Solutions from KPS Capital Partners, along with all brands and operations within those units. Genesis and Crento Global will be operated as standalone businesses. Terms were not disclosed.

SB&D earned a perfect score of 100 on the 2019 Corporate Equality Index, the benchmarking survey administered by the Human Rights Campaign Foundation. The survey addresses corporate policies and practices related to LGBTQ workplace

equality issues. More than 560 major US businesses also earned high marks this year. SB&D made significant changes throughout 2018 in order to improve their policies and efforts on inclusivity, including providing unconscious bias training. CEO Jim Loree said that he passionately believes that diversity and inclusion are key to a workplace where purpose-driven top performers can thrive.

An analyst’s update on SB&D estimated that the company is well-positioned to hit their target of \$12B to \$14B revenue for Tools & Storage in 2022. They estimated that SB&D’s investment in Craftsman and associated initiatives is capable of driving more than \$1.1B of 2022 revenue.

TTI/Techtronic Industries

Full Year 2018 Conference Call:

In 2018 organic sales increased 15.8% to USD \$957 million and total revenue grew to USD \$7 billion. It was their ninth consecutive year of record revenue.

Record sales were mainly driven by their focus on innovative cordless products along with strong category channels and geographic expansion.

Milwaukee revenue increased 28.2% and the RYOBI ONE+ cordless system delivered double-digit growth. Milwaukee outperformed the market by more than 400%. They believe they can grow the Milwaukee business 20% per year over the next three years.

Margins expanded by 50 basis points to 37.2%, the tenth consecutive year of gross margin improvements. The increase was mainly driven by the introduction of innovative products, category expansion, mix improvements and productivity gains. Effective supply chain management offset any commodity inflation.

The Power Equipment division accounted for 85.6% of the group’s revenue and delivered 17% sales growth over 2017.

CEO Joe Galli stated that they have a new product coming out that will “blow your mind.” They invest heavily in R&D to drive product development, and believe that right now they are in an environment where there is so much opportunity for them

to expand they need to take advantage of every opportunity

Joe Galli said that people incorrectly perceive that their growth is tied to the housing market. Galli said some of that perception is due to some of their competitors blaming performance that is below expectations on a lagging housing market. He pointed to the fact that TTI sales were up 17% and the company operates in the same countries and markets as their competitors.

They are no longer an industrial company, but are now a technology company. They are constantly investing in new product development and geographic expansion.

The Home Depot is their largest customer, and expects them to deliver product when they need it. So they produced more inventory in order to be ready for improved sales.

They have been investing in campus recruiting and hiring and focusing on hiring blue-chip, high-potential college graduates from more than 75 campuses around the world. This year they plan to hire more than 780 hand-picked superstars who will populate their sales, marketing, engineering, logistics and finance organizations. Their Leadership Development program (LDP) is special because most companies struggle with the investment needed, as it takes three or four years for a college graduate to actually produce a good return on the company's investment. They consider the program highly successful and are very committed to it. They currently have more than 12 vice-president-level execs in the company who started as college graduates in their LDP program.

They believe they are the number one consumer DIY power tool company, and their five major competitors are all tied for number two.

Chairman Horst Pudwill announced that they have been included in the Hang Seng stock Index, one of 50 companies in the index.

Other News:

TTI plans to open a new \$50 million warehouse and distribution center in an existing industrial park in Gaffney, South Carolina. They'll be moving into a building that's been vacant since early 2016. Cherokee County will give TTI special tax breaks for coming to the area and creating 100 jobs.

RETAIL

Retail Sales Fall 0.2%

Retail sales fell 0.2% in February after rising a sharply upwardly revised 0.7% in January. Economists had expected sales to rise 0.4%. Sales were up 2.7% from February 2018. Core retail sales, which exclude food services, car dealers, building-materials stores and gasoline, fell 0.2% in February after rising 1.1% in January. February sales were weaker than expected; analysts speculated that colder weather and more precipitation may have taken a bite out of sales. In addition, the IRS has been slow issuing refund checks due to the five-week government shutdown. Refund checks usually help drive sales in the early months of the year. In February, online and mail-order retail sales rose 0.9% after rising 2.6% in January. Sales at building material stores dropped 4.4% in February after rising 3.3% in January. The biggest drop since April 2012 was most likely due to extremely cold weather in much of the country.

Costco Tops Satisfaction Survey

Costco took over the top spot on the annual American Customer Satisfaction Index, scoring 83 to Amazon's 82 and nudging Amazon out of the number one ranking they've enjoyed since 2010. Amazon scored 86 last year; this is the first time the survey has included Costco, which is a latecomer to e-commerce. The survey attributed Costco's ascent to a same-day delivery partnership with Instacart and a new online grocery delivery service. Grocery is one large online category that has been tough for Amazon to penetrate.

Walmart

Walmart US CEO Greg Foran told the UBS Global Consumer and Retail Conference that there was a time when Walmart was David and Sears and Kmart were Goliath; he said it was fun being David, because no one likes Goliath. But sometime in 2000 they realized they had become Goliath, and now there were a lot of David's taking aim at them, from drug stores, traditional supermarkets and other discounters to Amazon. Foran told the audience Walmart was considering some key questions while formulating a strategy to deal with Amazon, including the benefits of having hundreds of millions of SKUs vs. the benefits of having a more curated assortment. They are also considering what opportunities there might be with data and what other marketplaces, such as health and wellness, they might want to participate in.

Walmart is planning to hire 900 new truck drivers this year, and is also offering a one-cent-per-mile pay increase to their 8,000 truck drivers. The increase will push their average annual salary to just under \$90,000. Like many companies, Walmart is dealing with a shortage of truck drivers and rising transportation costs.

Walmart plans to bring their digital ad business in-house, and is winding down their relationship with Triad, the unit of WPP PLC that sells ad space on retail websites and other digital properties. WM also plans to bring their store and digital ad teams closer together, using Walmart's vast amounts of shopper data to sell marketing opportunities to companies. Digital advertising is currently dominated by Alphabet's Google and Facebook. Amazon has also made significant inroads. WM sees building a bigger advertising business for suppliers as way to ramp up advertising revenues and keep Amazon at bay. Walmart has gone after in-store marketing dollars, but in recent years has encouraged brands to lower prices to gain an advantage rather than paying to market products in the aisles. Walmart will need to build a team of media and marketing execs who can sell ad space and help suppliers create ads for their products and services.

Ace Hardware

Executive VP of Merchandising John Surane addressed attendees at the co-op's Spring Convention in Orlando and told them that independent hardware stores need to be famous for four categories: BBQ & Backyard, Power Tools, Paint and Home Preservation.

According to CMO Kim Lefko, the sales environment is changing. The average order in a store is \$27; the average order online is \$79 and the average delivery order is \$272. Ace has several initiatives designed to get the word out about Ace in a fast-changing media environment.

Lefko says 40% of people using delivery are Ace Rewards members who have not shopped with them in two years, so the numbers indicate a big opportunity.

Ace is piloting a digital marketing tool that will let dealers build their own key-word marketing campaigns and will be launching an Ace app by the end of the year. She said that purchases made inside an app have grown 70% in the past year,

and people who purchase in an app spend three times more than online shoppers and five times more than in-store shoppers.

In Power Tools, Ace pointed to their strength of brands, including Craftsman, Milwaukee, DeWalt, Stihl, Toro and what they described as the fast-growing Ego battery-powered brand of tools.

Surane noted that what he referred to as home preservation, or home maintenance and repairs, is the core business and guts of a great hardware store. It is crucial that Ace is seen as the place to fix, repair and maintain the home.

True Value

True Value will invest more than \$150 million to accelerate and modernize their supply chain. Modernization includes what they describe as an "unprecedented" new distribution facility in Hanover, Pennsylvania that is expected to open this fall. The 1.3 million square-foot center will be the first ground-up distribution center they've built in more than 30 years.

True Value and their vendors donated more than \$400,000 worth of merchandise to the Dallas Area Habitat for Humanity after their semi-annual Reunion trade show that was held at the convention center in February. More than three dozen volunteers collected, sorted and packed 16 semi-truckloads of donated products that were showcased at the show. The donations came from more than 200 vendors. True Value has been a staunch supporter of Habitat for Humanity for several decades, and in the past three years has donated more than \$2.6 million.

W.W. Grainger

2018 annual sales rose 8% to \$11.2 billion. Sales in the US rose 8%. On a daily basis, sales increased 7%, driven entirely by volume. Fourth quarter sales rose 5% to \$2.8 billion and were up 6% ex-currency and 4% on a daily basis. Grainger expects sale to rise 4% to 8.5% this year.

Amazon

Amazon will close more than 80 of their small kiosk pop-up stores where they've been letting customers try out and buy devices offline. But that does not mean Amazon is abandoning

the physical store concept. They are expanding their relationship with Kohl's and also with Whole Foods, and there may soon be Amazon devices available on store shelves. In addition, they plan to increase the number of Amazon bookstores and Amazon Four-Star stores.

Amazon has quietly altered their agreement with third-party sellers on Amazon marketplace, dropping a controversial clause in their contract that required sellers to price their products on Amazon lower than they were priced anywhere else. The practice was stopped in Europe and Germany after investigations were launched looking into discriminatory practices. The latest move is considered a response to requests from Congress for an investigation into Amazon's anti-competitive practices, and threats from Senator Elizabeth Warren that she would consider legislation that broke up big tech companies because they have an unfair competitive advantage.

Amazon is offering a series of Selling Partner Summits. The series of six conferences is designed to help small and medium-sized businesses build their business in Amazon's stores. The initial series sold out in six weeks. More than 1,800 businesses are signed up to attend the nationwide events between March and October. More than half of the units sold in Amazon's stores are from small and medium-sized businesses.

Amazon has stopped selling their physical Dash Buttons, the gadgets that allowed users to automatically re-order household items. Dash Buttons were first introduced in 2015. Amazon said that a shift towards virtual versions of the buttons is behind the decision, but they will continue to support the buttons currently in use. Customers are also increasingly using programs like Alexa Shopping and Subscribe and Save, which automatically delivers frequently ordered items at regular intervals.

Amazon will hire 3,000 remote workers in the US in 18 states, including Texas, Washington, Arkansas, Mississippi, New Mexico and Arizona. According to the job listings cited by CNBC, Amazon will pay \$15 per hour for the seasonal work-from-home customer service jobs.

CANADA SNAPSHOT

Interest Rates Steady

The Bank of Canada (BoC) once again left interest rates unchanged at 1.75% at its meeting in early March. The slowdown in the global economy and unexpectedly weak real GDP growth in Canada were cited as the reasons behind the latest decision to leave rates alone. Analysts still expect the BoC to raise rates by 25 basis points sometime this year unless Canadian, US and global indicators show weaker momentum than anticipated. The bank has raised the key rate five times since 2017. Canada's economy slowed from 3% growth in 2017 to 2% in 2018 and is expected to slow even further this year.

Unemployment Steady at 5.8%

The unemployment rate remained unchanged at 5.8% in March and the number of people employed held steady after two months of increases. The economy added 116,000 new jobs in the first quarter, an increase of 6%. Employment was up 1.8% from March 2018, an increase of 332,000 jobs, with significant gains in both full-time and part-time work. March employment increased in Saskatchewan, New Brunswick and Prince Edward Island but was little changed in the remaining provinces. Employment in business, building and support services lost 14,000 jobs in March, with most of the losses in Ontario.

Consumer Confidence

Consumer Confidence in Canada increased to 55.08 in March from 54.12 in February of 2019, reversing three consecutive months of declines. Consumer Confidence in Canada averaged 53.46 from 2010 until 2019, reaching an all-time high of 57.05 in November of 2018 and a record low of 46.80 in February of 2016. The monthly Index of Consumer Confidence is constructed from responses to four attitudinal questions posed to a random sample of Canadian households.

Consumer Prices Rise 1.5%

The Consumer Price Index (CPI) rose 1.5% in February after rising 1.4% in January and 2.0% in December, according to Statistics Canada. The rise was in line with market expectations. Excluding gasoline, the CPI was up 2.1% year over year,

matching January's gain. All eight major components rose in February. On a seasonally adjusted monthly basis, the CPI rose 0.3% in February after dropping 0.1% in January.

GDP Rises 0.3% in January

Real GDP expanded 0.3% in January, fully offsetting the declines in November and December 2018. The rise was widespread as 18 of 20 industrial sectors were up. On a three-month rolling average basis, real GDP edged up 0.1%, the same rate as the three-month rolling average in December 2018. The output of goods-producing industries increased 0.6%, led by growth in manufacturing and construction. Following seven months of decline, the construction sector expanded 1.9% in January. This was the largest monthly increase since July 2013, with all types of construction activity increasing. The residential construction subsector rose 3.1%, the second consecutive monthly gain. There was continued growth in home alterations and improvements, multi-unit housing construction and a pick-up in single and semi-detached housing construction. Services-producing industries rose 0.2% as all but one sector increased.

Canadian Recession Without US

Canadian economists think it's possible that Canada may eventually slip into a recession without the US also experiencing one, something that hasn't happened in 68 years. BCA Research, a global markets and economies firm that has been making projections since 1949, says that growth in the US may help push Canada into recession, and that debt-laden Canadian consumers are not well-equipped to handle higher borrowing costs. The debt to disposable income ratio in Canada has risen from 137% at the end of 2006 to 175% at the end of September 2018. US household debt to disposable income was below 100% at the end of September, the lowest it's been since 2001, according to Bloomberg. Even at peak levels, the debt ratio in the US has never topped 140%. However, most economists and the Bank of Canada think there is only a 20% chance that Canada will go into a recession over the next 12 months.

Housing and Construction News

The national pace of housing starts slowed in February after stabilizing in January as higher mortgage rates and a slowing economy softened demand. The seasonally adjusted annual rate of starts fell to 173,153 units in February from 206,809

units in January; economists had expected an annual pace of 205,000 units in February. The annual pace of urban starts fell 18.0% in February to 155,663 units and rural starts were estimated at a seasonally adjusted annual rate of 17,490 units. The six-month moving average of the monthly seasonally adjusted annual rate of housing starts was 203,554 in February, down from 207,742 in January.

Home sales fell 4.4% in February after rising 3.6% in January, according to the Canadian Real Estate Association (CREA). The average home price was down 5.2% from February 2018. On a month-over-month basis sales were down 4.4% from January to the lowest level of sales since November 2012. It was the biggest monthly drop since the mortgage stress test went into effect in January 2018. February is typically a slow month even during a mild winter. The year-over-year drop in sales was heavily concentrated in British Columbia and Alberta. The other provinces saw sales rise 2.8%. The CREA expects annual home sales to fall 1.6% this year to 450,400 units, which would be the weakest annual sales since 2010. British Columbia and Alberta will account for much of the decline.

Retail Sales Drop in January, Rise for 2018

Retail sales decreased for the third consecutive month in January, declining 0.3% to \$50.1 billion. Sales were down in 4 of 11 subsectors, representing 52% of retail trade. Lower sales at motor vehicle and parts dealers (-1.5%) contributed to the majority of the decline. Sales at building material and garden equipment and supplies dealers (+1.4%) increased for the second month in a row, following five consecutive monthly declines from July to November. After removing the effects of price changes retail sales in volume terms were essentially unchanged in January.

Retail sales rose 2.7% to \$605 billion in 2018 after rising 7.1% in 2017, according to Statistics Canada. In 2018 retail sales deteriorated each quarter and rose just 0.8% in the fourth quarter. Some Canadians are struggling with higher interest rates and rising debt levels. Gasoline prices increased in mid-2018, eating into disposable income. Economists expect retail sales to grow only modestly this year.

Retail Notes

Walmart Canada saw comp store sales rise just 1.1% in the fourth quarter compared to 2.9% last year; comp store sales rose 4.5% in the US.

Canadian Tire said weak December sales were tied to unseasonably mild weather that impacted sales of snow shovels and snow blowers, but noted that they had not seen customers cutting back on purchases of expensive discretionary items such as furniture or trading down to cheaper goods.

MARKET TRENDS

Home Design Trends

Here are some of the current trends in home design, according to Builder Magazine:

Affordability. There is an acute shortage of affordable homes in many markets, offering builders an opportunity to “address the middle” and come up with more affordable single-family homes. Much of the demand comes from educators at all levels, municipal workers, healthcare employees and tradespeople who are being priced out of “gentrifying” urban neighborhoods.

Smart as Standard. As Amazon, Google, and Apple compete for consumers to purchase smart devices that do everything from turning on the oven to reminding you to close the garage door, they are increasingly partnering with larger home builders to lock in customers. Widespread adoption of home technology has made connectivity an affordable, expected standard in new-home construction and savvy builders are responding to meet this need.

Making Room for Mom and Dad. One of the biggest trends will be in-law suites on the main floor, ranging from simple bedroom suites to all-out mini-apartments with a separate living zone and kitchenette. Not all in-law suites are for parents; in some cases they are for adult children or extended family or even friends who are pitching in to bring down the cost of owning a home.

Style Trends. The modern farmhouse look will continue to be the hot style of the moment. As a companion, exteriors that showcase siding in different ways are popular, such as using

vertical siding on top and traditional horizontal siding on the rest of the home.

Kitchens Keep Growing. But the extra square footage will be devoted to features that incorporate the kitchen into living space, such as expansive banquettes, oversized islands and bar seating, rather than to work space, as in previous years. There is also a resurgence of “unfitted” kitchens where pieces are more furniture-like, materials are more complex, and open shelving replaces expanses of cabinetry.

Statement Ceilings. This trend encompasses a broad range of design elements for what designers call the “fifth wall,” including delicate trim details, intricate designs using beams and bolder looks where materials such as plaster finishes, wallpaper or even brick are the focal point. It’s being viewed as an affordable way to add impact to the home.

Wellness. Bringing touches from the outdoors inside is not only an aesthetic choice, but on trend with people’s desire to live healthier lives. Real plants actually filter harmful chemicals out of the air. People are also opting for natural materials over manmade, hardwood instead of carpet and flat finishes with fewer chemicals instead of high-gloss paint finishes.

Color it Creative. Bold, colored cabinets will take hold along with a more eclectic, transitional style in interior design. Metallics, such as gold, bronze and chrome, are making a comeback as home products designers mirror the jewelry fashion trend of mixing metals. In hardwood flooring lighter, more natural colors will edge out espresso and darker shades. Engineered vinyl plank flooring and tile that mimics wood are also gaining market acceptance from entry-level to luxury home buyers with its durability and realistic hardwood look and feel.

Working from Home. As telecommuting becomes more widespread, people are looking for office space within their home and community. Builders are responding by including offices or flexible spaces and equipping the entire residence with smart-home technology. Outside the home, builders are offering community centers with amenities such as co-working space, internet cafés, package delivery, and outdoor WiFi parks with tables for laptops.

Aging in Place

Freddie Mac estimates that 1.6 million more senior house-

holds are staying in place than would have been the case if this generation of seniors behaved like previous generations of homeowners. Instead of moving, more people born after 1931 are choosing to age in place in their homes, adapting them to changing needs if necessary. For perspective, 1.6 million units is roughly the same as the number of new single-family and multifamily housing units built each year, and represents more than half of the current shortfall of 2.5 million housing units that Freddie Mac estimates the country is currently dealing with. The report also cites the fact that many seniors are in better health than previous generations. The fact that seniors are aging in place has made it tough for millennials and other first-time buyers who are finding themselves priced out of the market by a shortage in supply.

Delivery Trends

Amazon is introducing a program that offers Prime customers the option to pick one day a week that's "Amazon Day."

Amazon will then be able to group their purchases and deliver them all at once, reducing the amount of packaging and boxes needed. Prime members can select a different option at check-out any time they want to. Amazon says they have tested the program with a group of Prime members and Amazon Day has already reduced packaging by tens of thousands of boxes. Amazon says that Amazon Day helps customers manage their deliveries and have fewer boxes to recycle and analysts note that the move will of course reduce Amazon's shipping costs and help them move toward their Shipment Zero carbon reduction initiative's goal. Customers have thus far not been offered any incentives to switch to Amazon Day.

FedEx is testing an autonomous delivery device with retailers that include Walmart and Target. It's called the FedEx SameDay Bot.

The bot, which is actually a large white cube on wheels, will allow retailers to accept orders from nearby customers and deliver them directly to homes or businesses the same day. FedEx is also collaborating with Lowe's and other retailers to help assess the retail industry's autonomous delivery needs. FedEx is developing the zero-emission, battery-powered bot with DEKA Development & Research Corp, whose founder also invented the iBot robotic wheelchair and Segway motorized scooter. The bot is designed to travel on sidewalks and along roadsides and has a host of safety features, as well as the ability to navigate unpaved surfaces, curbs and steps. FedEx plans to test the bot this summer in select markets, including Mem-

phis, Tennessee. FedEx currently offers a SameDay City service that operates in 32 markets and 1,900 cities.

Walmart is also reportedly working with Estonian robotics startup Starship Technologies on delivering food orders to college kids in Virginia and with vehicle startup company Udelv in Phoenix.

Amazon Scout is an internally developed autonomous vehicle that Amazon is reportedly testing that was designed to beat Starship Technologies to the market. Six Scouts are delivering packages in a neighborhood in Washington state. Amazon also partnered with Chamberlain on the Amazon Key program, which allows select Prime members to receive deliveries in their garage.

The Humanization of Digital Assistants

Sometime in the future a conversation with a digital assistant will be virtually indistinguishable from a conversation with a person, according to Rohit Prasad, the head scientist for Amazon's Alexa. Prasad has worked for two decades in machine learning and other areas of voice technology and currently oversees hundreds of engineers working to ensure that Alexa responds appropriately to voice commands. They are also working on teaching Alexa to tackle more complex issues, such as having a fluent conversation, whisper responses or remind you to close the garage door. Prasad says that they know they can't be the expert in everything; that the WebMD skill (Alexa's version of an app) may be the best place to access health information and Airbnb knows a lot more about vacation rentals than Alexa does. Digital assistants will keep getting smarter in at least four dimensions. The first is competency; accuracy and the range of things AI can do will keep growing. The second is context awareness, where Alexa will learn to answer questions based on context, so if you ask her what the temperature is, she'll be able to figure out whether you want the temperature in the house or outside or in the oven. The third is a version of responsiveness; if you whisper to Alexa, she whispers back. The last is almost what could be described as reasoning; you would tell Alexa you want to take a vacation in Aruba for a week, and she would search for Airbnb, airfare, rental cars, etc. Prasad says the toughest skill of all is at least ten years away. It's the ability of AI to make a joke.

Canada's Tech Future

Canada is undergoing a digital transformation that will continue to alter what the future of jobs and everyday work will look like, according to a recent report in the *Hamilton Spectator*. Toronto was recently recognized by global real estate leader CBRE's annual Scoring Tech Talent report as one of the best locations for tech teams to settle because of the deep pool of available talent. The conditions that supported Canada's tech growth also have implications for the future of the workforce overall. Canada is attractive to global talent and is welcoming an influx of skilled international workers to fill technology jobs, reportedly due to Canada's merit-based immigration policy. However, Canada is also losing talent to Silicon Valley, home to many top tech companies, venture capital funding and higher salaries. Canada also has many companies that are transforming business through AI, which is just at its beginning stages when it comes to tech jobs. Canada's ecosystem for startups was ranked third in the world by Swiss-based startup Blink, partially due to the support systems and the presence of many accelerators and incubators across the country. In addition, Canada has a strong university research community.

China Top Retail Market

China is expected to surpass the US and become the world's largest retail market this year. Retail sales in China are forecast to grow 7.5% to \$5.6 trillion this year, according to eMarketer's worldwide retail and ecommerce forecast. US retail sales are expected to increase 3.3% to \$5.5 trillion. While growth is slowing in both countries, China is expected to outpace the US through 2022. In recent years, consumers' incomes in China have risen, catapulting millions of people into the new middle class, according to eMarketer.

Best Buy's Journey from Retail-Led to Customer-Driven

Best Buy CEO Hubert Joly shared what he called the chain's seven-year transformation from retail-led to customer-driven with attendees at this year's Adobe Summit.

Seven years ago pundits thought Best Buy was on the way out, and Joly admits they were not in good shape. But Best Buy was determined to recover from the impact of Amazon and put customers at the center of their new business.

The key to change was the combination of data, employee enablement, purpose and customer experience. The first phase of the turnaround, dubbed "Renew Blue," began in 2012 and was all about building a comprehensive strategy.

The strategy had several components. First, Best Buy made sure prices were competitive with Amazon. They then focused on the experience. They redid their website and invested in search functions and information. They made shipping a key tool, and now offer free shipping that they promise is as fast as Amazon. They then invested in the in-store experience and employees. That helped turnover to drop to less than 30%. They also partnered with their key technology companies.

All that resulted in taking nearly \$2 billion in cost out of the business. They are now focused on reinventing the company through a strategy they call "Best Buy 2020: Building the New Blue." They decided they are not in the business of selling products or doing transactions; their purpose is to enrich lives with the help of technology through addressing key needs, from entertainment to health and security. They don't see themselves as a brick-and-mortar retailer, but rather a company obsessed by the customer and serving them in ways that truly solves their unique problems.

Best Buy also decided they needed to earn a reputation as a good corporate citizen. Initiatives include reducing their carbon footprint and launching Teen Tech Centers, interactive spaces dedicated to helping teens better understand technology and its role in modern lives.

Another new program is called "Total Tech Support." For \$200 per year, Best Buy supports all the technology in a home and shows up to fix whatever goes wrong. Best Buy also bought Jitterbug, a company focused on utilizing technology to support the elderly living at home, with the objecting of helping aging seniors stay home and live independently.

A variety of programs, including virtual reality, are designed to help people choose the best technology for them. They've also enabled a version of buy online, pick up in store that makes picking up an order quick and easy.

Seven years ago, 80% of Best Buy's media spend was in mass marketing; today it's 90% digital. Their customer database has more than 12,000 attributes. As an example of digital personalization, Best Buy sent out 40 million versions of one

promotional email. The metrics they use to measure success are also changing.

In February Best Buy reported fiscal 2019 results that handily beat analysts' expectations, delivering double the earnings from last fiscal and comp store sales growth of 4.8%, the eighth consecutive quarter of increases in comp store sales.