

# Market Briefing

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Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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## US ECONOMY

### Exchange Rates July 31, 2019

<b>Euro</b>	1 Euro = \$1.113	\$1.00 = 0.899 Euros
<b>Canadian Dollar</b>	1 CAD = \$0.761	\$1.00 = 1.314 CAD
<b>Japanese Yen</b>	1 Yen = \$0.009	\$1.00 = 108.597 Yen
<b>Chinese Yuan</b>	1 Yuan = \$0.146	\$1.00 = 6.866 Yuan
<b>Mexican Peso</b>	1 Peso = \$0.053	\$1.00 = 18.996 Pesos

### Market Watch July 31, 2019

<b>DOW</b>	26,882	0.02%
<b>NASDAQ</b>	8,182	0.02%
<b>S&amp;P 500</b>	2,983	0.01%

The markets eked out miniscule gains for the month of July despite falling precipitously after the Fed cut rates by 0.25% or 25 basis points on the last business day of the month. Market watchers had been hoping for a 50 point cut, and were also disappointed that the Fed did not promise another rate reduction this year.

### Consumer Confidence Rises to 135.7

**The New York-based Conference Board's Consumer Confidence Index rose to 135.7 in July** after falling to an upwardly revised 124.3 in June, according to the Conference Board's latest survey. It was the biggest point jump for the Index since November 2011. The Present Situation Index, which is based on consumers' assessment of current business and labor market conditions, rose to 170.9 after dropping to an upwardly revised 164.3 in June. The Expectations Index, which is based on consumers' short-term outlook for income, rose to 112.2 in July after falling to an upwardly revised 97.6 in May. The Conference Board stated that the sharp declines in June were driven by tensions over trade and tariffs, but consumers are now more optimistic about the job and labor market and the economy overall. 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 0.3%

**Consumer spending rose 0.3% in June** after rising an upwardly revised 0.5% in May. Core consumer spending rose 0.2% in June for the third consecutive month. Personal income rose 0.4% in June after rising 0.5% in May. Savings rose to \$1.34 trillion from an upwardly revised \$1.31 trillion in May. Inflation pressures remained low, with the personal consumption expenditures (PCE) price index excluding the volatile food and energy components rising 0.2% in June for the third consecutive month. In the 12 months through June, the core PCE price index increased 1.4% after increasing 1.5% in May, well below the Fed's preferred inflation reading of 2.0%.

### Consumer Prices Rise 0.1%

**The Consumer Price Index (CPI) rose a seasonally adjusted 0.1% in June** after rising 0.1% in May. The year-over-year CPI was up 1.6% in June after rising 1.8% in May and 2.0% in April. Dropping prices for gasoline, electricity and natural gas helped keep overall inflation low. Core inflation, which excludes food and energy, jumped 0.3% in June after rising 0.1% per month for eight consecutive months. Core CPI rose 0.3% in June, with rising costs for shelter, apparel and used cars and trucks exerting the most upward pressure. Fed officials worry that persistently low consumer prices could indicate slackening demand.

### Unemployment Steady at 3.7%

**The unemployment rate held steady at 3.7% in July and the economy added 164,000 new jobs**, in line with economists' expectations. Job gains for May and June were revised down by a total of 41,000 jobs, putting the three-and six-month averages of job growth around 140,000, well below last year's average of 223,000 jobs. Employment in construction was little changed from June. Average hourly earnings rose 0.3% and were up 3.2% year over year. Unemployment remained at 3.7% because the labor participation rate edged up again. 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 Rise 2.0%

**Durable goods orders rose 2.0%** in June after falling a downwardly revised 2.3% in May. It was the first increase in durable goods orders in the past three months, and above expectations of a 0.7% increase. Orders ex transportation rose 1.2%. Core durable goods orders for non-defense capital goods excluding

aircraft, widely regarded as a key indicator of business spending, rose 1.9% in June after rising a downwardly revised 0.3% in May; it was the largest increase in core orders in 18 months. Nondefense capital goods shipments, which factor into GDP, rose 0.6% in June after rising 0.5% in May. The durable goods report is very volatile and often subject to sharp revisions.

## Chicago PMI Falls to 44.4

**The Chicago Purchasing Managers' Index (PMI) fell to 44.4 in July after dropping to 49.7 in June**, the second consecutive month the index was below 50. Four of the five components were in contraction territory, with only Supplier Deliveries above 50. The Production indicator fell 22% in July and hit a 10-year low. Demand remained soft, with New Orders dropping further into contraction and Order Backlogs remaining below 50 for the third consecutive month. Weaker demand and production led some firms to adjust their workforce, and the Employment indicator fell into contraction for the first time since October 2017, hitting the lowest level since October 2009. July's special question asked firms about their views on US economic growth during the second half of the year. No significant changes were seen on the horizon by 46% of firms, with 14% expecting the economy to pick up and the remaining 40% expecting the economy to weaken in the second half. Global risk, trade tensions, a slowdown in demand and weakening GDP projections all contributed to the outlook. Economists use the Chicago PMI and other regional indicators to gauge the health of the ISM manufacturing index.

## Wholesale Prices Rise 0.1%

**The Producer Price Index (PPI) rose a very slight 0.1% in June** after rising 0.1% in May and was up 1.7% year over year, down from a 1.8% year-over-year increase in May. Core producer prices, which exclude food, energy and trade services, were flat, although core prices rose 0.4% in May rather than the 0.2% increase first reported. Core prices were up 2.1% year over year after increasing 2.3% year over year in May.

## Q2 GDP Grows 2.1%

**GDP grew 2.1% in the second quarter**, down from the first quarter's surprisingly strong growth of 3.1% but ahead of expectations for 1.8% growth, according to the first reading from the Commerce Department. Year-over-year growth slowed to 2.3% in the second quarter from 2.7% growth in Q1. Overall growth in

the second quarter was driven by real personal consumption expenditures (PCE), which rose a robust 4.3%, in line with recent reports showing strong retail spending. Real spending on durable goods jumped nearly 13% for the quarter and spending on non-durable goods rose 6.0%. Real consumer spending on services rose 2.5%. Government spending was another area of strength, growing 5.0%. However, the housing market remained lackluster and real residential construction spending edged down 1.5%, the sixth consecutive quarterly decline for this component. Real exports fell 5.2% and real imports were essentially flat for the quarter.

## Job Openings Drop in May

**The number of job openings dropped by 49,000 to a seasonally adjusted 7.3 million in May** after falling to 7.4 million in April, according to the most recent Job Openings and Labor Turnover Survey (JOLTS). The job openings rate fell to 4.6% in May after being unchanged at 4.7% in April. Vacancies in the construction sector dropped by 65,000 in May; construction and transportation are the two industries that are struggling the most with worker shortages. Hiring dropped by 266,000 to 5.7 million in May and the hiring rate fell to 3.8% from 4.0% in April. The number of workers voluntarily quitting their jobs fell to 3.4 million in May from 3.5 million in April. The quits rate was unchanged at 2.3% for the 12th consecutive month. The quits rate is viewed by policymakers and economists as a measure of job market confidence. Layoffs edged down in May, keeping the layoffs rate at 1.2% for a second consecutive month.

## Fed Cuts Rates 0.25%

**The Fed cut interest rates by 0.25%** at their two-day meeting the end of July, leaving the overnight lending rate between 2.0% and 2.25%. The first rate cut in more than a decade came after months of pressure from President Donald Trump, although Fed Chairman Jerome Powell vigorously maintained that the Fed would not respond to political pressure and functioned independently. Homeowners with adjustable-rate mortgages and consumers with variable-rate credit cards may see their monthly payments drop. While widely expected, economists were divided in their analysis of whether a rate cut now will give the economy a boost and help core inflation move closer to the Fed's target of 2%.

## Economic Expansion Longest on Record

**When the US economic expansion hit 121 months on July 1 it became the longest expansion on record.** The previous record was during the 120-month expansion from March 1991 to March 2001, which ended when the dotcom boom went bust. The current expansion has been one of the slowest on record, with GDP growing 25% cumulatively since the start. Unemployment sits at 3.6%, the lowest level since 1969 and down from a peak of 10% in 2009.

## HOUSING & CONSTRUCTION

### Housing Starts Fall 0.9%

**Housing starts fell 0.9% in June** to a seasonally adjusted annual rate of 1.25 million units after falling to 1.27 million units in May. **Single-family starts rose 3.5%** to 847,000 units after falling to 824,000 units in May and multifamily starts dropped 9.2% to 406,000 units. **Regional starts were mixed.** Combined single-family and multifamily starts rose 31.3% in the Northeast and 27.1% in the Midwest. Starts declined 9.2% in the South and 4.9% in the West.

### Building Permits Fall 6.1%

**Building permits fell 6.1% in June** to a 1.22 million unit annualized rate. **Single-family permits rose 0.4%** to 813,000 units after dropping to a downwardly revised number in May. Multifamily permits fell 16.8% to 407,000 units after falling to 479,000 units in May. **Regional permits were mixed.** Year to date, permits rose 21.9% in the Northeast and fell 10.4% in the South, 7.9% in the West and 0.6% in the Midwest.

### New-Home Sales Rise 7.0%

**New-home sales rose 7.0% in June** to a seasonally adjusted annual rate of 646,000 units from a downwardly revised reading in May. New home sales were up 2.2% from June 2018. The inventory of new homes for sale was 338,000, a 6.3-months' supply at the current sales pace. The median sales price rose to \$310,400 in June after falling to \$308,200 in May. The median sales price in June 2018 was \$310,500. **Regional new home sales were mixed.** Sales jumped 50.4% in the West, which was responsible for virtually all of the increase in sales. Sales inched up 0.3% in the South but tumbled 26.3% in the Midwest and 4.2% in the Northeast. Year to date regional sales were up

9.5% in the South and 19.4% in the West and down 50.0% in the Northeast and 17.6% in the Midwest. Wells Fargo commented that some of the drop in sales in the Northeast, where sales this year are 24.4% below year-ago levels, is due to the change in tax laws which limits the deductions for mortgage interest and state and local taxes. International home buying has also slowed. More than 80% of new home sales during the past two years have been in the South and the West, which also have accounted for the bulk of the nation's population growth. 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 1.7%

**Existing home sales fell 1.7% in June** to a seasonally adjusted annual rate of 5.27 million new homes after rising to 5.34 million homes in May. Sales were down 2.2% from June 2018. **Regional sales were mixed.** Sales were up 1.5% in the Northeast and 1.6% in the Midwest. Sales fell 3.4% in the South and 3.5% in the West. Total housing inventory at the end of June rose to 1.93 million existing homes available for sale from 1.91 million in May and was unchanged from June 2018. Unsold inventory is at a 4.4-month supply at the current sales pace, up from 4.3 months in May and 4.3 months in May 2018. The median existing home price for all housing types reached an all-time high of \$285,700, up 4.3% from June 2018. June was the 88th consecutive month that home prices have increased.

### Builder Confidence Rises to 65

**Builder confidence rose one point to 65 in July** after falling two points in June, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). Builder confidence has been in the low- to mid-sixties for the past six months. Builders report demand has been solid, but development and construction costs continue to rise and labor remains in short supply and home prices continue to outpace consumer incomes. **All the HMI indices inched higher in July.** The index measuring current sales conditions rose one point to 72, the component gauging expectations in the next six months rose one point to 71 and the index measuring buyer traffic increased one point to 48. Looking at the three-month moving averages for regional HMI scores, the South rose one point to 68 and the West rose one point to 72. The Northeast remained unchanged at 60 and the Midwest fell one point to 56.

## Mortgage Rates Stable at 3.75%

**A 30-year fixed-rate mortgage (FRM) was 3.75% at the end of July, virtually stable from 3.73% at the end of June.**

Rates were 4.54% at the end of July 2018. Freddie Mac expects rates to average 4.5% this year and 4.8% next year. The drop in mortgage rates has caused a corresponding increase in applications for mortgages and refinancing.

## Remodeling Market Index Rises to 55

**The National Association of Home Builders' (NAHB) Remodeling Market Index (RMI) rose one point to 55 in the second quarter.** The RMI has been consistently above 50, the level that indicates that more remodelers report market activity is higher compared to the prior quarter than report it is lower, since the second quarter of 2013. Current market conditions rose two points to 55. Among its three major components, major additions and alterations increased four points to 53 while minor additions and alterations and the home maintenance and repair component both held steady at 55 and 56, respectively. The future market indicators gained one point to 55. Calls for bids stayed at 54, amount of work committed for the next three months fell two points to 52, the backlog of remodeling jobs increased four points to 58 and appointments for proposals remained steady at 55 for the third quarter in a row. NAHB says that the remodeling market has slowed somewhat due to supply-side challenges and declines in existing home sales.

## POWER TOOL INDUSTRY

### Robert Bosch

**Robert Bosch Tool Corp's new 18V lithium-ion 8.0 Ah Battery uses the latest high-power 21700 cells to deliver twice the power and runtime of standard batteries.** The battery weighs 2.14 pounds and features advanced cell technology that delivers power with lower internal resistance. It houses just 10 cells to deliver more power in a lighter, more compact package. The 21700 cell provides 11% more power and 27% more runtime with the same number of cells as an 18V 6.3 Ah battery.

**Bosch is acquiring building automation specialist Gesellschaft fuer Regelungstechnik und Energieeinsparung**

### GmbH (GFR) from building technology wholesaler

**Wiedemann.** GFR offers a comprehensive hardware and software product portfolio for sustainable building operations. Terms were not disclosed, and the deal still needs to be approved by the antitrust authorities.

## Stanley Black & Decker

**Q2 sales increased 3%** to \$3.8 billion from net sales of \$3.6 billion for Q2 2018. Sales for the first six months of 2019 increased just shy of 3% to \$7.1 billion from sales of \$6.9 billion for the first half of 2018. **Sales in the Tools and Storage segment rose 2%** to \$2.6 billion.

### Q2 Conference Call with Analysts:

**Organic growth of 3% and 3% growth from acquisitions was partially offset by 3% negative growth from currency.**

Price was as expected, contributing 2% to revenue growth.

**Tools & Storage revenue rose 2%**, due to 5% organic growth, 3% growth in volume and 2% growth from price partially offset by 3% negative growth from currency. Most regions and business units contributed to growth. The Tools business continues to benefit from the Craftsman rollout as well as a continued focus on product innovation and commercial execution.

**SB&D had \$110 million of tariff, commodity and currency headwinds** to offset in the quarter, with more than 90% of headwinds impacting Tools & Storage.

**Geographically, North America led the way**, with revenue up 7% organically, driven by share gains in their US retail business, which was up in the high single digits, and growth in the commercial channels, which rose in the mid-single digits.

**Within Tools & Storage, Power Tools & Equipment delivered 6% organic growth.** The outdoor segment delivered growth in the high teens, driven by new products and expanded merchandising launched under Craftsman, DeWalt and DeWalt FlexVolt.

**They launched a broad range of cordless products in Craftsman outdoor, as well as in DeWalt**, which uses the FlexVolt battery platform. DeWalt Outdoor is gaining traction in the market.



**They expect the DeWalt Atomic series and the 12-volt DeWalt Xtreme series to produce incremental growth in the second half of the year.**

**Craftsman is on track and they are well on their way to delivering 3% incremental growth in 2019** and hitting their \$1 billion target by 2021. They noted that their redesigned Craftsman products are winning with end users and producing growth and share gains for them as well as their customers.

**In North America they had very strong high single-digit retail performance** across many of their key customers related to Craftsman.

**Hand Tools, Accessories & Storage delivered 4% organic growth** with new product introductions and the ongoing Craftsman rollout continuing to contribute to growth.

**They lowered their full-year projections,** and now expect 4% organic growth. Tools & Storage assumptions were not adjusted, with the segment still expected to produce mid-single-digit organic growth and margin rate expansion. For the full year they expect close to \$400 million of commodity, tariff and currency headwinds.

#### Other News:

**SB&D recalled Porter-Cable 10" table saws because the motor can overheat and create a fire hazard.** About 258,000 units were sold in the US and about 990 were sold in Canada. The recalled saws are model number PCX362010 and were sold at Lowe's Stores nationwide from June 2016 through September 2018.

**SB&D will lay off about 100 employees when they close their Georgetown, Ohio facility later this year.** SB&D has eight other plants in Ohio, but no further layoffs were announced.

## TTI/Techtronic Industries

**Milwaukee President Steve Richman said that sales have increased nearly 400% since 2011** and he expects the company to hit \$5 billion in sales by 2020. Richman joined the company in 2007, and was addressing attendees at the *Milwaukee Business Journal's* Power Breakfast in June. Milwaukee Tool has substantially expanded their headquarters in Brookfield,

Wisconsin, leading the city to analyze their contribution to the economy in order to better understand the spillover economic effect of attracting and retaining large employers. According to the city, Milwaukee Tool has generated 5,226 indirect jobs in the region and has 1,390 employees with an average annual compensation of \$81,000. Milwaukee Tool is also increasing air traffic at Milwaukee Mitchell International Airport, attracting 9,000 passengers in 2018. Milwaukee also reported spending \$52.1 million with vendors, \$1 million on business meals and \$127,537 on tickets to sporting events.

## RETAIL

### Retail Sales Rise 0.4%

**Retail sales rose 0.4% in June and were up 3.4% from June 2018,** according to the latest figures from the Commerce Department. It was the fourth consecutive month retail sales increased. Core retail sales, which exclude food services, car dealers, building-materials stores and gasoline, also rose 0.7% after an upwardly revised gain of 0.5% in June. Core retail sales correspond most closely with the consumer spending component of GDP. Online and other non-store sales were up 11.6% year-over-year and up 1.7% month-over-month seasonally adjusted. Building materials and garden supply stores were down 4.7% year-over-year but up 0.5% month-over-month seasonally adjusted.

### Potential Antitrust Case Against Big Tech

**The Retail Industry Leader's Association (RILA), which represents large players like Walmart and Target, says it is preparing comments for potential antitrust cases against some big tech players,** including Amazon and Facebook. RILA delivered a letter to the FTC that claims that dominant technology firms are creating an "information bottleneck" that can boost their own brands at the expense of rivals. The group has already presented arguments to the House Judiciary Committee's antitrust subcommittee. The FTC is one of several federal organizations considering taking action against big tech. The Department of Justice (DOJ) is also preparing an investigation.

### Prime Day Impacts Retail

**Amazon's Prime Day, which this year was a full 48 hours in mid-July, created a ripple effect in retail,** with several other

players offering competitive deals. Target expanded last year's One Day sale, which they termed one of their biggest days of the year for online sales, to two full days, July 15 and 16. Target offered both same-day delivery and in-store order pickup within hours as well as drive-up pickup, and free two-day shipping when customers spend \$35 or use their Target RED card. Many other retailers also saw a bump in sales over the Prime Day event.

## Walmart

**Walmart US CEO Doug McMillon told attendees at Fortune's annual Brainstorm Tech that he admired Amazon for their speed, innovation and customer-centered approach.**

He acknowledged that Walmart fell behind in ecommerce and is now playing catch-up. He said that the culture at Walmart is not egotistical; that if someone else is doing something better, they study their methods and adopt what makes sense for them. He also said that Walmart is learning to adjust their pace in order to create a more seamless experience for customers across all their platforms and eliminate competitiveness between retail and ecommerce. McMillon also noted that Walmart's physical stores in the US gave them an advantage over competitors like Amazon because 90% of the US population lives within 10 miles of a Walmart store. However, he also said that his store visits were making him "grumpy" as the stores were not executing the vision in ways that made them attractive to customers and rewarded customers for making a trip to a retail store.

## Ace Hardware

**Ace is recommending members streamline workforce management with a new platform for scheduling and people management.** The new platform, which was tested in South Carolina, produced a 50% increase in efficiency. The platform reduces the time store managers must spend making monthly schedules and enables store employees to use their own mobile devices to perform tasks such as swapping shifts, putting in requests for vacations and other types of leaves and sending out messages to the store team.

**Ace Hardware was named the 2019 overall category leader in retail in the first Localized Social Marketing Benchmark Report from market researcher LSA and SOCI,** the leading platform for social and reputation management for franchise and multi-location marketing brands. The research examined the top franchise marketing brands on their performance in lo-

calized social marketing in three key areas: the brands' localized presence, customer care (in the form of local ratings and reviews), and local community engagement. The report concluded that the top 10 brand performers grew three times faster than their category peers based on a 5-year trend of each brand's revenue growth rate. The study covered the 163 top franchised brands in ten industries.

**Ace is now offering product assembly on select items at participating Ace stores.** Ace views product assembly as another way they can best competitors like Amazon that deliver items unassembled, forcing customers to tackle assembly themselves or hire someone to do it.

**Berkshire Hathaway's Benjamin Moore paints will become the primary paint supplier to Ace Hardware.** The deal is a setback to Sherwin Williams, although they will still supply Ace with some products. Last year Sherwin-Williams became the exclusive paint supplier for Lowe's. The paint industry is dominated by four players: Sherwin-Williams, PPG, Benjamin Moore and Masco, who collectively produce 90% of the paint used for residential and commercial purposes in the US.

## True Value

**True Value is spending \$150 million to revamp their supply chain, retool their distribution network and upgrade their technology** so they will be able to compete more nimbly in the home improvement market. True Value distributes goods to more than 4,500 stores and businesses in the U.S. and abroad. They operate 13 regional distribution centers in several states, including California, Ohio, Texas and Pennsylvania. The company is revamping that network to deliver goods along a "hub-and-spoke" model to use inventory more efficiently so that seasonal items like patio furniture don't take up space where faster-moving products such as hand tools and plumbing supplies could be stored. Instead of stocking each warehouse with every product, the wholesaler is placing slower-moving goods in large central locations and pushing inventory that turns over more quickly out to satellite facilities closer to customers. Orders drawing from the hub are sent out to the spokes, where they are matched up on the loading dock with items pulled from those distribution centers. New software is being added to help True Value be better at forecasting demand and replenishing inventory more quickly and efficiently.

## W. W. Grainger

**Q2 sales rose 1% to \$2.9 billion**, with the increase driven by 1.5% increase in volume and a 0.5% increase from price, partially offset by a 1% negative impact from currency.

**Grainger lowered expectations for the year** and now estimates revenue will grow 2% to 5%, down from the 4% to 8.5% growth originally projected. They also lowered their estimate for market growth from a 1% to 4% positive gain to a decline of 1% to 2%.

**Grainger has named Chicago-based gyro their creative agency of record** after a formal business review. Gyro is a dedicated business-to-business agency that will support Grainger's US marketing strategy. Gyro became Grainger's media agency of record in 2017.

## Amazon

**Q2 revenue rose 20%** to \$63.4 billion, beating estimates. But profits were short of expectations due to heavy investment spending, and Amazon forecast that operating income in Q3 will be \$2.1 billion to \$3.1 billion, well shy of analysts' estimates of \$4.34 billion. Amazon had forecast spending of \$800 million in the second quarter to move to one-day delivery for Prime customers, but actually spent much more than planned because the program was more expensive to implement than expected. Q3 is typically a heavy investment quarter for Amazon as they ready facilities for the busy holiday shopping season.

**Amazon Web Services sales rose 37%** to \$8.38 billion, slightly below estimates. Revenue from seller services rose 23% to \$12 billion. Subscription services, mostly revenue from Prime memberships, rose 37% to \$4.67 billion. Other revenue, which is mostly Amazon's advertising business, rose 37% to \$3 billion.

**Amazon's sales are expected to increase 14% this year** to \$586.9 billion, accounting for 10.7% of retail sales, according to *eMarketer*.

**Customers purchased more than 175 billion items worldwide on Amazon Prime Day**, making it the largest shopping event in Amazon history. Amazon also reported that customers saved more than one billion dollars taking advantage of Prime Day specials. Large US retailers also benefitted from Prime Day, with retailers with more than one billion in annual sales

seeing a 64% spike in sales, according to Adobe Analytics.

**Kohl's will begin offering free returns for Amazon shoppers.** Customers bring in their eligible Amazon returns; no box or label is needed. Kohl's will pack and ship items back for free. Kohl's CEO Michelle Gass said that their top strategic priority is driving traffic. She called the Amazon return program "transformational" because she believes it will drive new customers into the stores and result in incremental purchases and return visits. The program was tested in 2017 in 100 stores in Chicago, Los Angeles and Milwaukee.

**Amazon shoppers can now pick up their orders at more than 100 Rite Aid stores across the US.** That will expand to 1,500 Rite Aid locations by the end of the year. Amazon said they are looking to bring the new service, called Counter, to other stores both big and small. Amazon said this option is for stores that don't have room for in-store lockers. Stores will receive Amazon packages daily. Packages will be scanned by store workers and an email will be sent to shoppers letting them know their order is ready for pick up. They then have 14 days to come in, show store workers the emailed barcode and pick up their order. More physical retailers are working with Amazon in the hopes that doing so will help them reach Amazon's huge customer base.

**Amazon is currently delivering about 48% of packages themselves**, according to market research supplied to Axios as reported in *Eurotrade*. In January 2017 the US Postal Service was handling more than 60% of Amazon's packages and Amazon was delivering less than 15%. Amazon responded, telling Axios that the numbers were not an accurate representation of how shipments are shared between Amazon and carrier partners.

**Amazon will spend more than \$700 million by 2025 to re-train 100,000 workers**, about one-third of their US workforce. The training will focus on making employees more tech-savvy and enabling them to switch to more technical jobs. Most of the training will be free to employees and will be offered at a variety of levels from basic tech training to highly specialized jobs such as software engineering.

**Amazon's move to one-day delivery, an extra perk announced for Prime members in April, will drive higher conversion rates**, leading to faster unit growth in second-half 2019



and into next year, according to Cowen & Co. analyst John Blackledge. Higher purchase conversions could result in \$1.1 billion to \$2 billion incremental US revenue this year, according to Cowen, who based his projections on survey data revealing that 32% of US Prime households abandon their shopping carts because products won't be delivered in a timely fashion. Cowen expects the US Postal Service's share of Amazon's last-mile delivery to drop from an estimated 54% in 2018 to 35% in 2024 as Amazon ramps up faster delivery programs.

**Amazon plans to launch 3,236 broadband satellites into low orbit in order to provide internet service to most of the US and other parts of the world.** Company subsidiary Kuiper Systems filed an application with the FCC as part of a regulatory hurdle that needs to be cleared before they can launch the first operational satellites.

## CANADA SNAPSHOT

### BoC Leaves Rates at 1.75%

**The Bank of Canada (BoC) left interest rates unchanged at 1.75% in June** after leaving them at the same rate in May. Canada is rebounding from a weak stretch that nearly brought the economy to a halt in late 2018 and early 2019. The BoC was widely expected to leave rates unchanged. The bank will continue to monitor data with a particular focus on developments in the energy sector and the effects of global trade tensions. The bank downgraded their 2019 global growth forecast to 3% from 3.2%. They are predicting economic growth in Canada of 1.3% this year, up slightly from their April forecast of 1.2% growth. Consumption in Canada is being supported by a healthy job market and rising wages, along with a stabilizing housing market.

**The Bank of Canada will take over as administrator of a key interest rate benchmark** that is undergoing an overhaul as part of global reforms to benchmarks, some of which have been vulnerable to manipulation. The BoC will assume duties for calculating and publishing the Canadian Overnight Repo Rate Average (CORRA) in the second quarter of 2020 and distribute it at no cost "as a public good." The reference rate for more than \$1-trillion of Canadian financial instruments, mostly derivatives, is currently administered by financial data provider Refinitiv.

### Unemployment Rises to 5.7%

**The unemployment rate rose to 5.7% in July** after ticking up to 5.5% in June. The unemployment rate rose because more people entered the job market looking for work, but overall the economy did not add a substantial number of jobs in July. Employment was up 1.9% year over year with a net gain of 353,000 new jobs. While employment was little changed overall in July, it decreased in Alberta, Nova Scotia and New Brunswick, and increased in Quebec and Prince Edward Island. In construction, employment grew by 25,000 in July, with notable increases in Quebec and Alberta. Compared with July 2018, construction employment was up 2.7%, or by an additional 38,000 jobs.

### Consumer Confidence

**Consumer Confidence in Canada fell one point to 119.3** in June after rising in May. Only the Ontario and Saskatchewan-Manitoba indexes rose in June; all other regions posted declines. The monthly Index of Consumer Confidence is constructed from responses to four attitudinal questions posed to a random sample of Canadian households.

### Consumer Prices

**The Consumer Price Index (CPI) rose 2.0% in June** on a year-over-year basis after rising 2.4% in May, according to Statistics Canada. On a seasonally adjusted monthly basis, the CPI dropped 0.1% in June after rising 0.4% in May. Energy prices continued to drop in June, falling 4.1%. Stable to slightly higher inflation and generally improving domestic data should allow the BoC to remain patient on interest rates.

### GDP Rises 0.2%

**GDP rose 0.2% in May** to a seasonally adjusted 1.959 trillion Canadian dollars after rising 0.3% in April, according to Statistics Canada. Output in May was led by a rebound in manufacturing, with 13 out of 20 industrial sectors expanding. On a three month rolling average, real GDP increased 0.7%. The construction sector was up 0.9% in May as nearly all types of construction increased. This was the fourth gain in five months for the sector, following a period of declining activity during the second half of 2018. Residential construction rose 2.2%, posting the strongest growth in more than a year, with double, row and other multi-unit dwelling construction expanding, along with home alterations and improvements. Residential repair construction

rose 0.1%, but non-residential construction fell after five months of increases.

## Housing and Construction News

**The annual pace of housing starts picked up in June to a seasonally adjusted annual rate of 245,657 units** after slipping to a downwardly revised 196,809 units in May. The results topped the 210,000 units that economists had expected. Urban starts increased by 26% in June to 234,238 units and the annualized pace of multiple-unit projects rose 31% to 185,804 units. Single-detached urban starts rose 8% to 48,434 units. Rural starts were estimated at a seasonally adjusted annual rate of 11,419 units. The six-month moving average of the monthly seasonally adjusted annual rates was 205,838 units in June, up from 200,530 in May. Every province in Canada posted a housing starts gain for the month of June. The impressive results may encourage the Bank of Canada to raise its economic outlook, according to analysts.

**Home sales fell 0.2% in June** after rising 1.9% in May and were up 0.3% compared to June 2018, according to the Canadian Real Estate Association (CREA). The modest decline was due to sales rising in some regions and falling in others rather than an overall decline. Gains were seen in the province of Quebec and in Southern Ontario, while home sales fell in the Greater Vancouver area, Calgary and Halifax as well as Newfoundland and Labrador.

## Retail Sales Drop 0.1%

**Retail sales dropped 0.1% in May** to \$51.5 billion after rising for the previous three months. Sales were down in 3 out of 11 subsectors, representing 39% of retail trade. Core retail sales fell 0.5%. Sales decreased in eight provinces but were higher in Quebec and Ontario. Sales at building material and garden equipment and supplies dealers rose 0.2% in May after falling 2.6% in April but were down 3.9% year over year. On an unadjusted basis, retail ecommerce sales reached \$1.8 billion in May after rising to \$1.6 billion in April, and accounted for 3.0% of total retail trade, compared with 2.0% of total retail trade in April 2016, the year when official monthly stats for ecommerce were first published. Compared with April 2018, retail ecommerce increased 21.8% in May 2019, while total unadjusted retail sales increased 1.6%.

## Retail Notes

**Canadian Tire is partnering with Myant Inc. to bring smart technology and innovation to performance and safety apparel and footwear.** Myant is a world leader in Textile Computing. Their SKIIN Textile Computing platform integrates biometric sensors, heat generation technology and electroluminescence into apparel and footwear that connects with smart devices to record performance and health information and help keep wearers safe. One of the brands that will use the technology is Dakota workwear.

## MARKET TRENDS

### Construction Spending Trending Lower

**Construction spending has been about 0.3% lower than in the first five months of 2018**, although spending in April and May has averaged about 1.6% higher than in January-March at an annual rate. Growth has been led by a public infrastructure spending boom, which has helped offset sustained weakness in home-building. Residential construction spending year to date is down more than 8% compared to the first five months of 2018. On a monthly seasonally adjusted basis, home building peaked in April 2018 and has declined by more than 11% since then. Most of the decline is due to a drop in what Census categorizes as “improvements.” The category includes construction of additional housing units in existing residential structures, finishing of basements and attics, kitchen and bath remodels, adding swimming pools and garages and replacing major equipment such as water heaters, furnaces and air conditioners. “The remodeling market has decelerated somewhat due to ongoing supply-side challenges, as well as year-over-year declines in existing home sales,” said NAHB Chief Economist Robert Dietz. Market conditions would be better if not for labor shortages and rising construction costs making it difficult to complete some projects at prices home owners can afford.” Spending on new housing is down about 4% since the peak last year. Single-family housing construction has dropped about 7.5% while multifamily construction is up about 10%. Home improvement spending is down 24% since last April. About 75% of the total decline in residential investment over the past year can be traced to a drop in spending on renovations.

## New Home Market Declines

**US private residential spending has dropped more than 11% since April 2018**, according to *Barron's*. Americans bought 302,000 new single-family homes in the first five months of 2019, up just 4% from the first five months of 2018. More homes were purchased in the first five months of 2019 than in any year since 2007, although demand is still much lower than it was during the 1996 to 2006 housing boom. Mortgage rates have been dropping since November 2018, helping to boost both consumer and builder sentiment. The median value of new homes sold in the first quarter of this year was 9% lower than peak values at the end of 2017. Consumers benefit from the downward trend in prices, but sales prices need to be high enough for builders to recoup construction and marketing costs.

## Skilled Trades Academy

**The Hoover, Alabama school district has more than 125 students enrolled in their new Skilled Trades Academy.** During the first year students will take courses that introduce them to carpentry, electrical work, welding and HVAC. During the second year students will be able to focus in more detail on the trades that interest them. Potential future courses include plumbing, heavy equipment operation and advanced manufacturing. Students will have the opportunity to become certified in workplace safety and earn industry credentials in each of the trades being taught. The school district is partnering with the Alabama AGC as well as private industry. Hoover is planning on expanding the Academy in order to offer night classes for adults.

## Digital Ad Spending

**Total spending on digital advertising will grow to \$520 billion in 2019 and average annual growth of 15% over the next five years**, according to Juniper Research. Digital advertising includes online, mobile browsing, in-app and digital out of home and TV services. Amazon's revenues will continue to grow and account for 8% of global digital ad spend by 2023, up from 3% in 2018. Google's ad revenues will exceed \$230 billion by 2023, but their global market share of spend will fall 1% over the next four years due to the growth of competing platforms, including Amazon and Baidu.

## Consumer Views of Online Shopping

**Consumers are growing more comfortable with shopping**

**online**, with 46% saying they are more open to purchasing big-ticket items like a grill or even a car online than they were a year ago, according to a new study from B2B marketing firm Walker Sands. One in five respondents stated that they don't care who they buy from, they are focused on price and convenience. A third of all respondents and 43% of millennials reported receiving at least one package from Amazon each week. Paradoxically, 25% of respondents say they feel more connected with brands when they shop in a physical store. In what the study termed the Marie Kondo Effect, 66% of respondents said they are buying less than they used to because they are consciously trying to keep a clean, organized life. 72% of people ages 18-35 said they were consciously buying less.

## Handling Online Order Delivery

**FedEx offered big discounts on their air network after ending their air-shipping contract with Amazon in June.** They're offering guaranteed two-day air delivery for the same price as shipping items FedEx ground in order to win over shippers from UPS. FedEx is projecting growth in online shopping will double the number of packages shipped in the US to 100 million a day by 2026 and is now trying to capitalize on that growth after initially being reluctant to handle too much of the lower-margin ecommerce shipping market. UPS is overhauling their network to adapt to the online-shopping boom, spending billions of dollars to build large automated sorting facilities and delivering packages six days a week. The FedEx legacy air network was created decades ago to deliver shipments like legal documents and medical supplies by 8 a.m. or 10:30 a.m. Consumers generally don't care about what time a package arrives, as long as it arrives quickly. Amazon has about 400 fulfillment centers, sorting centers and air hubs in the US, according to supply chain consultants MWPVL International. Many retailers are using their own stores to pack and ship orders placed online so shipments are traveling short distances where air delivery would not be required. FedEx expects that delivery distances will continue to shrink and that the vast majority of growth will be fulfilled and delivered in the same metropolitan area. One way FedEx is adapting their Express network is with a service called Extra Hours. Drivers do a sweep of AutoZone, BestBuy, Target and other stores late at night to pick up online orders bound for nearby homes. The packages are then brought to a nearby hub where packages brought in on jets are sorted, and all go out on FedEx Express vans for delivery the next day.

## The Humanization of Alexa

**Being third to market with a voice assistant turned out to be a “happy accident,”** according to Dave Limp, Amazon’s senior vice president for devices and services. Apple had already introduced Siri and Google was already using “OK Google.” Limp said that initially the phone assistants were very utilitarian, and were used for command and control, such as navigation, where people wanted concise information and having a personality got in the way. So Amazon developers set out to create a voice assistant with a personality of her own. As people have discovered, Alexa has opinion about all sorts of things. And they vary slightly from country to country. Her favorite beer in the US is different from her favorite brew in Germany. They wanted her to be smart, humble, helpful and sometimes funny, characteristics they felt were important. But even the developers did not anticipate how much people would relate to Alexa’s personality. A quick look through the reviews of the Echo smart speaker reveals countless examples of people calling Alexa playful and funny, a great companion and even a friend. And for people who don’t want their smart speaker to have opinions, there is a feature called brief mode that can be enabled in the Alexa app that provides a much more utilitarian experience. No word on what percentage of Alexa users have activated this feature.

## City Growth

**Cities with fewer than 200,000 residents grew faster than larger metropolises between 2017 and 2018** as high housing prices chased many people away from big cities and their closest suburbs, according to a Stateline analysis of US Census Bureau estimates, according to a recent story from AGC. The biggest cities grew by a collective 326,000 people, less than half the number earlier in the decade, and considerably less than the 421,000 for cities with populations between 10,000 and 50,000. And small towns of fewer than 10,000 people grew more quickly than earlier in the decade, collectively attracting more than 142,000 new people last year, driven in part by retirees seeking affordable housing.

## Amazon Competitors

**Amazon celebrates their 25th birthday this year facing a host of challenges and challengers.** Several Senators and other prominent politicians have taken aim at Amazon and other tech giants, threatening to subject them to new regulations and

limit their ability to grow and expand their reach. Walmart has Amazon squarely in their sights and is introducing a steady stream of new offerings meant to make Walmart more competitive and offer better value to people looking for Amazon-like benefits. And a host of smaller competitors has sprung up, including new ecommerce player Waybuy. Houston-based Waybuy offers free shipping on all orders of \$25 or more in Texas and orders of \$39 or more in other states. No membership fee is required. They also offer free same-day delivery in Houston and surrounding suburbs and free next-day delivery in Texas with the \$25 minimum order. Deliveries outside of Texas take one to three days. Verishop is another newcomer, targeted at millennials. Their standard offerings include free two-day shipping, free returns and 24/7 online customer service. Verishop is specifically targeting younger consumers with curated influencer assortments and a focus on socially responsible products.

## Brand Intimacy Study

**Amazon once again led the retail industry in MBLM's Brand Intimacy 2019 Study,** with Amazon subsidiary Whole Foods coming in second. Brand intimacy is defined as the science that measures the emotional bonds people form with the brands they purchase and use. Amazon not only led the retail segment, but ranked number three overall. Also in the retail top ten were Target, Costco, Walmart, Macy’s and eBay. The top three industries overall were media and entertainment, automotive and technology and telecommunications. The Brand Intimacy 2019 Study also revealed that top intimate brands in the U.S. continued to significantly outperform the top brands in the Fortune 500 and S&P indices in both revenue and profit over the past 10 years. Amazon ranked number one among women and users over 35, whereas men preferred Whole Foods and millennials favored Target. Amazon was also the preferred brand among users with incomes under \$100,000, while Whole Foods was the top brand for those with incomes over \$100,000.