

Market Briefing

Content

US Economy	2
Housing & Construction	4
Power Tool Industry	5
Retail	8
Canada Snapshot	10
Market Trends	12

US ECONOMY

- Consumer Spending Rises 5.6%
- Consumer Prices Rise 0.6%
- Consumer Confidence Falls to 92.6
- Unemployment Falls to 10.2%
- Chicago PMI Rises to 51.9
- Wholesale Prices Fall 0.2%
- Q2 GDP Plunges 32.9%

HOUSING & CONSTRUCTION

- Builder Confidence Jumps to 72
- Building Permits Rise 2.1%
 - ▶ Single-family permits rise 11.8%
- Housing Starts Jump 17.3%
 - ▶ Single-family starts rise 17.2%
- New-Home Sales Rise 13.8%
- Existing Home Sales Climb 20.7%
- Regional Housing Stats
- Mortgage Rates Slip to 3.01%

POWER TOOL INDUSTRY

Stanley Black & Decker

- ▶ Q2 revenue falls 16%; Tools & Storage revenue falls 16%.
- ▶ Q2 conference call with analysts
- ▶ Partners with DeepHow

TTI/Techtronics

- ▶ Holds Vietnam supplier workshop

RETAIL

Retail Sales Rise 7.5%

The Home Depot

- ▶ Accelerates investment in outdoor category; drops EGO brands

Lowe's

- ▶ Will award additional bonuses
- ▶ Exclusive partnership with EGO

Walmart

- ▶ Leads retail mask mandate
- ▶ To launch Walmart+ membership program
- ▶ Experiments with cashierless checkout

Ace Hardware

- ▶ Intends to hire 30,000 employees
- ▶ New president for Emery Jensen
- ▶ Partners with Gallup and Medallia

True Value

- ▶ Supply chain news
- ▶ Opens retail outlet in paint facility

W.W. Grainger

- ▶ Q2 sales drop 1.9%

Amazon

- ▶ Record sales and profits for Q2
- ▶ Delays Prime Day to October
- ▶ Extends work at home

- ▶ Invests in new delivery fleet
- ▶ Requires 3rd party sellers to share information

CANADA SNAPSHOT

Economy

Housing & Construction

Retail

MARKET TRENDS

Economic Projections 2020

National Mask Mandate

People Still Want to Buy Homes

Remodeling Confidence & Trends

Warehouse and Distribution Market Confidence

Most Valuable Brands

Office of the Future

GSA Turns to Amazon and Overstock

Retailers adjust to the New Normal

Ecommerce Growth

Retailer Coalition Formed to Replace Plastic Bags

Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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US ECONOMY

Exchange Rates July 31, 2020

Euro	1 Euro = \$1.182	\$1.00 = 0.846 Euros
Canadian Dollar	1 CAD = \$0.747	\$1.00 = 1.338 CAD
Japanese Yen	1 Yen = \$0.009	\$1.00 = 105.774 Yen
Chinese Yuan	1 Yuan = \$0.143	\$1.00 = 7.976 Yuan
Mexican Peso	1 Peso = \$0.045	\$1.00 = 22.225 Pesos

Market Watch July 31, 2020

DOW	26,428	2.3%
NASDAQ	10,745	6.8%
S&P 500	3,271	5.5%

All three indexes remained in the black in July and posted their fourth consecutive monthly gain as the big tech companies posted stellar results. However, analysts note that there is much uncertainty ahead, as unemployment benefits expired on July 31 and CV19 resurged in much of the country.

Consumer Spending Rises 5.6%

Consumer spending rose 5.6% in June after jumping a record 8.2% in May. Core consumer spending rose 5.2%. In June, consumer spending was boosted by a 6.4% increase in the purchases of goods and a 5.2% increase in purchases of services. Personal income dropped 1.1% in June after dropping 4.4% in May and is likely to fall further. Consumer spending accounts for 70% of US economic activity.

Consumer Prices Rise 0.6%

The Consumer Price Index (CPI) rose 0.6% in June after three consecutive monthly declines. Prices were up 0.6% from June 2019. Excluding the volatile food and energy components, core prices rose 0.2% in June and were up 1.2% year over year. Much of the increase in prices was due to a modest rebound in oil prices. In addition, some of the categories that had been responsible for the largest declines in prices began to reverse in June, with apparel prices rising and transportation services prices rebounding, suggesting the demand for travel was beginning

to rebound. The personal consumption expenditures (PCE) price index excluding the volatile food and energy components rose 0.2%, matching May's gain. In the 12 months through June, core PCE prices rose 0.9% after being up 1.0% in May. The core PCE index is the preferred inflation measure for the Federal Reserve, which has a target of 2% for inflation.

Consumer Confidence Falls to 92.6

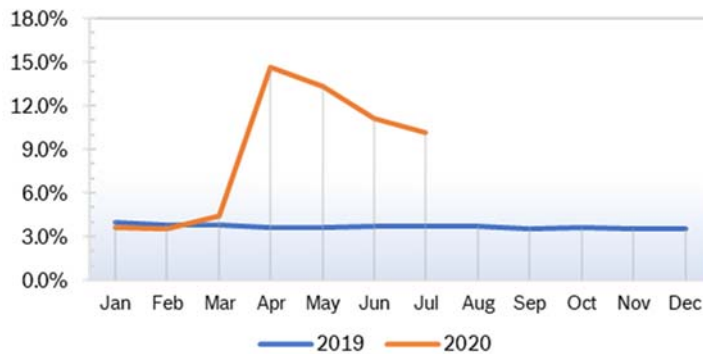


- ▶ The New York-based Conference Board's Consumer Confidence Index fell to 92.6 in July after rising to 98.1 in June*
- ▶ The Present Situation Index, which is based on consumers' assessment of current business conditions, improved to 94.2 from an upwardly revised 86.7 in June.
- ▶ Expectations dropped to 91.5 in July after rising to 106.0 in June, but has remained above 90 for four consecutive months.
- ▶ Large declines in confidence that influenced the index overall were experienced in several states grappling with a resurgence of CV19, including Florida, Texas and California.

*A level of 90 indicates that the economy is on solid footing; 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.

Unemployment Drops to 10.2%

U.S. Unemployment Rates



- ▶ The unemployment rate dropped to 10.2% in July after falling to 11.1% in June and the economy regained 1.76 million jobs after adding back 4.79 million in June.*
- ▶ Employment remains about 13 million below the pre-pandemic level in February, the official start of the Pandemic Recession.
- ▶ Gains in July were above expectations. Gains across the private sector were well-balanced, with jobs coming back across many industries. However, leisure and hospitality is still down more than 25% from February.
- ▶ Numbers reflect surveys in mid-July.

Note: The economy needs to create about 120,000 new jobs each month to keep up with growth in the working-age population.

Job Openings Rise in May

Job openings increased to 5.4 million on the last business day of May and the number of hires increased by 2.4 million to a series high of 6.5 million, according to the latest Job Openings and Labor Turnover Survey (JOLTS) from the US Bureau of Labor Statistics (BLS). It was the largest monthly increase of hires since the series began, and the first time job openings had increased since January. Total separations dropped by 5.8 million to 4.1 million, the single largest decrease since the series began. Within separations, the quits rate rose to 1.6% while the layoffs and discharges rate fell to 1.4%. These improvements in the labor market reflected the easing of restriction and resumption of business in the new-normal in much of the country in May. The BLS warned that the pandemic is affecting their ability to collect reliable data and response rates have dropped since

the pandemic began. JOLTS is a lagging indicator, but is closely watched by the Federal Reserve and factors into decisions about interest rates and other measures.

Chicago PMI Rises to 51.9

The Chicago Purchasing Managers Index (Chicago PMI) rose to 51.9 in July after inching up to 36.6 in June, the first time in 12 months the index has been above 50. Among the five indicators, Production and New Orders saw the largest monthly gains. New Orders jumped 23.8 points to the highest level since August 2019. Production rose 49.5%, putting the index back into expansion. While some companies noted recovering orders, others reported continued difficulties due to CV19. Order Backlogs grew 15.3 points in July, marking a near one-year high, but the index remained in contraction, where it's been since September 2019. Inventories gained 6.9 points in July after falling sharply in the previous month. Respondents were asked if they had contingency plans in place for a second wave of CV19. The majority (51.3%) have planned ahead, while 30.2% have no contingency plans in place. When asked about their business forecast for the remainder of the year, 65% of respondents expect growth to be below 5% this year. Looking all the way back to when the series began in 1967, the PMI has ranged from 20.7 in June 1980 to 81.0 in November 1973.

Wholesale Prices Fall 0.2%

The Producer Price Index (PPI) fell 0.2% in June after rising 0.4% in May. In the 12 months through May the PPI has fallen 0.8%. Excluding the volatile food, energy and trade services components, producer prices rose 0.3% in June. That was the biggest gain in the core PPI since January and followed a 0.1% rise in May. In the 12 months through June, the core PPI edged down 0.1%. In June, rising costs for energy goods were offset by weakness in services, pointing to subdued inflation that should allow the Federal Reserve to keep pumping money into the economy to arrest a downward spiral. The decrease in wholesale prices took economists by surprise, as the general consensus was for wholesale prices to rise 0.4%. Nevertheless, economists say that deflation remains unlikely as underlying producer inflation actually ticked up in June.

Q2 GDP Plunges 32.9%

Q2 GDP plummeted 32.9%, the steepest decline in GDP since the government started keeping records in 1947. However, the drop in GDP was actually slightly below consensus of a 35%

decline. Consumer spending dropped 34.6% and real Personal Consumption Expenditures (PCE) plunged 35%, all historic numbers. The economy contracted 5% during the first quarter. Analysts believe the economy will bounce back in the third quarter, but how quickly is very hard to project now that CV19 is resurging in much of the country. Wells Fargo estimates that GDP will grow at an annualized rate of 18% in Q3, assuming that there is not another full lockdown of the economy. Analysts are also concerned that weekly jobless claims are rising again for the first time since March.

Stimulus Program Talks Stall

Negotiations on Capital Hill to extend supplemental unemployment benefits and provide another round of stimulus programs ground to a halt after Democrats and Republicans failed to reach a bipartisan agreement. Democrats are pushing a relief package of more than \$3 trillion while Republicans are trying to keep the price tag closer to \$1 trillion. Republicans in Congress are hopelessly deadlocked. President Trump issued a series of executive orders that extend federal unemployment payments, but reduced the amount and require states to share the costs; reinstitute a recommended federal moratorium on evictions; extend the suspension of student loan payments; and temporarily defer collection of the portion of Federal payroll taxes paid by individuals. However, many legal experts say that the orders are neither legal nor feasible to execute. Analysts speculate that the real purpose of the orders was to force Congress to reach a negotiated legislative solution.

Fed Holds Rates Near Zero

The Federal Reserve held rates near zero (0% - 0.25%) at its regular meeting in July and pledged to hold rates at this historic low level through 2022. Fed Chairman Jerome Powell also noted that while the Fed has already taken many actions to prop up the economy, there may be more they can do in the future.

HOUSING & CONSTRUCTION

Builder Confidence Jumps to 72

Builder confidence jumped 14 points to 72 in July after rising in May, according to the Association of Home Builders/Wells Fargo Housing Market Index (HMI). According to NAHB, housing is well-positioned to lead the economic recovery. Inventory is tight, interest rates are low, mortgage applications are increasing and confidence is now back to pre-pandemic levels. All the HMI indices posted gains in July. The HMI index gauging current sales conditions jumped 16 points to 79, the component measuring sales expectations in the next six months rose seven points to 75 and the measure charting traffic of prospective buyers posted a 15-point gain to 58. Regional scores rose in every region for the second consecutive month. Any number over 50 indicates that more builders view the component as good than do as poor.

Building Permits Rise 2.1%

Building permits rose 2.1% in June to an annual rate of 1.22 million units after jumping 17% in May. **Single-family permits increased 11.8%** to a 834,000 unit rate, and multifamily permits dropped 13.4% to a 407,000 unit pace. On a year-to-date-regional basis, permits were mixed.

Housing Starts Jump 17.3%

Housing starts jumped 17.3% in June to a seasonally adjusted annual rate of 1.19 million units in June after rising to 974,000 units in May. **Single-family starts rose 17.2% in June** to a seasonally adjusted rate of 831,000 annual units and numbers for May were revised upwards. Multifamily starts rose 17.5% to a 355,000 annual pace. **Regional starts were mixed.** NAHB says demand continues to grow in lower-density areas, fueled by low interest rates and the pandemic. Builders are now dealing with rising costs, including costs for lumber.

New-Home Sales Rise 13.8%

New-home sales rose 13.8% in June to a seasonally adjusted annual pace of 776,000 units after rising to 676,000 units in May. Sales were at the highest level since the Great Recession and 6.9% ahead of the pace in June 2019. Inventory fell to a 4.7-months' supply, with 307,000 new single-family homes for

sale, 7% lower than June 2019. Just 69,000 of those homes are completed and ready to occupy. The median sales price rose to \$329,200 in June from \$317,900 in May and was up from \$311,800 in June 2019. **New home sales rose in all four regions.** 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 Climb 20.7%

Existing home sales climbed 20.7% in June to a seasonally adjusted annual rate of 4.72 million after falling to 3.91 million in May. Existing home sales were down 11.3% from June 2019 after being down 26.6% YoY in May. The National Association of Realtors (NAR) noted that demand was strong and people were eager to take advantage of record-low mortgage rates. The median home price was \$295,300, up 3.5% from June 2019, marking 100 consecutive months of year-over-year gains. Total housing inventory at the end of June totaled 1.57 million units, up 1.3% from May but down 18.2% from June 2019. Unsold inventory is at a 4.0-months' supply at the current sales pace, down from 4.8-months in May and 4.3 months in June 2019. Properties typically remained on the market for 24 days in June, seasonally down from 26 days in May, and down from 27 days in June 2019. Sixty-two percent of homes sold in June 2020 were on the market for less than a month. **Regional existing homes sales were mixed**, with sales in all regions up from May but down year over year. The NAR expects a slow and gradual recovery, aided by continuing low mortgage rates.

Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence	70 (+22)	73 (+10)	68 (+18)	80 (+14)
Building Permits YTD	-8.8%	+3.4%	-2.3%	-3.9%
Housing Starts Y/Y	-4.5%	+0.2%	+2.2%	+2.9%
New Home Sales	+22.0%	+0.2%	+12.6%	+3.1%
Existing Home Sales*	-27.9%	-4.0%	-13.4%	-13.6%

*Year over year

Mortgage Rates Slip to 3.01%



- ▶ A 30-year fixed-rate mortgage (FRM) inched down to 3.01% at the end of July after slipping to 3.13% at the end of June. Mortgage rates were at 3.75% at the end of July 2019.
- ▶ Freddie Mac notes that the 10-year Treasury benchmark dropped over the month, taking rates down with it, and consumer spending points to slow growth and concerns about pandemic-induced job losses.
- ▶ However, qualified prospective buyers are still house-hunting and hoping to take advantage of the low mortgage rate environment.
- ▶ While mortgage rates are historically low, credit standards are tightening as lenders attempt to avoid issuing loans that might go into default.

POWER TOOL INDUSTRY

Stanley Black & Decker

Q2 revenue fell 16% to \$3.1 billion. Tools and Storage revenue fell 16%. Organic revenue across all regions globally was impacted by reduced business activity in North America due to CV19.

Q2 Conference Call with Analysts:

CEO Jim Loree classified the quarter as one of the most

successful he has experienced in his 21 years as a C-suite executive at SB&D. He said it was a successful quarter based on the challenges they faced and overcame and the fact that they operated effectively, stayed strong and positioned the company for better margin performance and growth going forward.

It was the most volatile quarter they've ever experienced, with revenues down 40% in April followed by an explosive May and June in North American retail that saw POS rise to "stratospheric levels."

Tools & Storage revenue fell 16%, with volume down 16% and currency accounting for an additional 1% decline; positive price impact added 1%. Revenue in North America was down 10%. US retail was flat organically as inventory reductions early in the quarter were offset by strong demand that emerged in mid-April.

Demand was driven by the DIY phenomena that emerged shortly after lockdowns and stay home orders were instituted in much of the country. The refocus on home as haven drove up all their categories and they experienced multiple weeks where POS grew between 30% and more than 50%. They noted that strong POS continued during the first four weeks of July, which was the beginning of Q3.

Retail store inventories are at historically low levels and they are well past Q2 inventory corrections with North American retailers, and are now experiencing shipment growth in line with POS demand.

The US commercial and industrial tool channels were down 44% and 25%, respectively, due to the impacts of the shut-downs and reduced construction activity. They did see some positive indications in June but expect a slower recovery in these channels.

By SBU, Power Tools and Equipment declined 9% and Hand Tools, Accessories and Storage declined 23%, due to steep declines in industrial tool channels and international markets.

Both SBUs benefited from positive global trends in e-commerce and DIY. Ecommerce represented nearly 15% of global Q2 Tools & Storage revenue. Ecommerce accounted for \$1.3 billion in revenue in 2019. They see several opportunities to expand ecommerce initiatives and have a Black & Decker initiative underway in North America.

They are keeping their planned 2020 capital expenditure reductions in place and plan to continue suspending M&A activities and share repurchase.

For the second half, their assumptions for Tools & Storage range from -3.0% to +4%. A key factor in where they fall in this range will be the sustainability of the very strong growth they've seen in US retail channels.

They are watching US consumer trends closely, as well as the potential for another stimulus package and the potential for Pros to ramp up activities.

The company organic revenue trend over the past eight weeks is modestly positive, so they feel the high end of their range is possible, however not highly probable.

They see their cost reduction program as a \$1 billion savings opportunity over the next 12 months, with \$500 million this year. About 60% of that is from indirect spend and deflation; the balance is from staff and benefit reductions. As far as indirect spend goes, they have identified about half the saving as sustainable, and are working to push that to 75%.

They realized \$175 million of the \$1 billion in annual cost reductions they announced during the quarter, and now plan to turn some of the savings originally positioned as temporary into permanent. In early October they will eliminate their temporary salaried actions that include modified work weeks and furloughs and return 9,300 employees to a full work schedule and permanently lay off about 1,000 employees.

The Craftsman brand remains a key element of their growth strategy, with strong customer response. They remain well along their path towards \$1 billion in incremental revenue. The brand's heritage and value proposition put it in a good position to benefit from all the positive trends in North American DIY.

Society's new obsession with health, safety and security has been a boon to their security business, which now has many new opportunities for growth.

They built a substantial amount of inventory early in the quarter when customers were in the process of inventory corrections, and thus were able to produce sufficient inventory to keep up with demand when it accelerated.

While he believes the DIY trend will eventually cool down some, CEO Jim Loree sees the renewed interest in home and garden as something that will be around for at least the next couple of years. In addition, there are other consumer trends that could help sustain business, including investing in home renovations, adding home offices and relocating from cities to suburbs and rural areas. The Pro market has been very quiet, so when work picks up that could account for considerable volume. And the current obsession with health and safety may lead to another round of home improvements and renovations for both homes and businesses.

They identified a series of supercharged growth initiatives that have become even more attractive as a result of trends catalyzed by CV19. The initiatives are currently being funded; they expect them to contribute \$3 billion to \$4 billion of incremental annual revenue beginning in 2022. One initiative is acquiring the remaining 80% of MTD in early 2022.

They continue to focus on their CV19 priorities, ensuring the health and safety of employees and supply chain partners, maintaining a strong business, serving their customers and doing their part to help mitigate the impact of the virus across the globe.

They established a mandatory mask policy for all location in April, along with temperature checks and health questionnaires and continue to enforce social distancing and modify facilities and production lines where needed.

They implemented extensive standardization protocols in all operations and formed a corporate safety committee of senior execs and specialists and hired a Chief Medical Officer specializing in infectious disease control.

They are doing their own contact tracing. Today they have about 300 confirmed CV19 cases, about 0.5% of their workforce. They are also doing a massive educational campaign directed at associates to reinforce how employees can stay safe at work and in the community. They noted they believe it is important to combat all the misinformation that it is out there.

CEO Jim Loree commented on George Floyd's death and the Black Lives Matter movement, saying there was no place in society for this type of racism and brutality. They are committed to doing their part to level the playing field. Since early June Loree and senior executives as well as Board members have

had extensive dialogues with black associates to better understand their experiences with racism and bias and identify concrete actions they can take. They commissioned a task force which recently made substantive recommendations which they plan to move forward with in the second half of the year.

Other News:

SB&D is partnering with DeepHow to use their AI platform called Stephanie in what was described as up-skilling programs. Stephanie will improve knowledge capture, increase training efficiency and help grow the culture of safety at SB&D. SB&D will also bring the AI platform to customers, focusing on manufacturers, contractors, trade schools and unions. SB&D said DeepHow is the only AI knowledge transfer system for the skilled trades. DeepHow captures workflow via a mobile app and then turns complex workflows into step-by-step how-to videos that are much less labor and time intensive to produce than traditional video training.

SB&D is reportedly recruiting tradespeople to feature in new commercials for Craftsman Tools by monitoring posts on SB&D's social media accounts. The commercials can be viewed on YouTube; the latest one features Justin Travis of Coastal Cottage Renovations in Lewes, Delaware and is posted on the company's website at coastalcottagerenos.com.

SB&D was named to Forbes' annual list of America's Best Employers for Women 2020, ranking #1 in their category. CEO Jim Loree said that in addition to simply being the right thing to do, research shows that companies with diverse and inclusive cultures perform better. More than 75,000 US employees, 45,000 of which were women, participated in the survey.

TTI/Techtronic Industries

TTI recently partnered with Saigon High-Tech Park (SHTP) in Ho Chi Minh City to co-organize their first Vietnam Supplier Workshop. According to VENEWS, Vietnam is very important to TTI's global manufacturing expansion strategy because manufacturing in the country will provide strategic geographic diversification and strengthen the TTI supply chain. TTI confirmed that SHTP will be the location of their new plant in Vietnam. Construction of the SHTP factory will begin during the fourth quarter, and is expected to be completed by the end of 2021. Once the factory is completed and fully operational it will employ about 7,000 people, including 500 dedicated to

research and development. The plant will reportedly cost \$650 million, and will produce cordless appliances.

RETAIL

Retail Sales Rise 7.5%

Retail sales rose 7.5% in June after surging an upwardly revised 18.2% in May following two months of record declines. Sales were up 1.1% from June 2019 and were less than 1% below pre-pandemic sales in February 2020. Non-store sales (including online shopping) slowed 2.4% but are still up more than 23% year over year. Clothing stores, auto sales, gasoline and restaurants accounted for most of the gains in June. Sales at building and supply stores fell slightly. Core retail sales, which exclude automobiles, gasoline and sales at building and supply stores and factor into calculations for GDP, rose 6.7% in June. Analysts caution that the big increases may come to a halt as states have begun tightening restrictions once again as coronavirus surges in much of the country.

The Home Depot

The Home Depot plans to accelerate their investments in the outdoor power equipment category and simplify their primary brands across the category. To that end, they are dropping the EGO line of outdoor power tools, owned by Chervon Group. They have been sold at THD since 2014, and are also sold at Ace Hardware. THD says they will continue to sell cordless brands Ryobi, Makita, DeWalt and Milwaukee and gas-powered products from Toro, Echo, John Deere, Cub Cadet, Honda and Troy-Bilt. A spokesperson said they will focus on the most relevant brands with the greatest adoption; they have been extremely pleased by the positive customer response to their premiere outdoor power brands.

Lowe's

Lowe's will spend another \$100 million on bonuses for hourly employees in August in order to help associates with unforeseen expenses. Full-time hourly employees will receive a one-time bonus of \$300 and part-time and seasonal employees will receive \$150. Bonuses will be paid out on August 21. This matches payments Lowe's made in March, May and July. CEO Marvin Ellison said no one could have anticipated how long we

would be dealing with the pandemic, and wanted to help employees as school starts again in one form or another.

Lowe's is launching an exclusive partnership with EGO for their outdoor power equipment. EGO products will be available online and in select stores in fall 2020 and will roll out to all US stores nationwide by February 2021. Lowe's stated that the battery-powered, cordless line of outdoor power equipment, including mowers, blowers, string trimmers, hedge trimmers, edgers, chainsaws and snowblowers, will match or exceed the performance of gas-powered equipment without the noise and fumes.

Lowe's will also begin offering select SKIL battery-powered outdoor power equipment in late 2020, including push and self-propelled mowers, leaf blowers, string and hedge trimmers and other products and accessories.

SKIL and EGO are both owned by Chervon North America, which stated that their power tools and outdoor power equipment are sold by more than 30,000 stores in 65 countries.

Walmart

Walmart and Sam's Club began requiring all customers to wear masks inside all stores in mid-July, a policy that quickly led to other retailers following suit. At the time of the order, about 65% of Walmart's stores and warehouse clubs were located in areas where there was already some form of mask mandate. The CDC has stated repeatedly that a national mask mandate would significantly slow the spread of coronavirus. National grocery chain Kroger also announced a mask mandate. Starbucks, Best Buy and Kohl's also have mandates in place.

Walmart will create a new position of "health ambassador" at Walmart stores. They will be wearing black polo shirts and be stationed near the entrances to remind customers of the new requirements. They will also receive special training to "help make the process as smooth as possible for customers."

Walmart is reportedly close to launching a membership program that will go head-to-head with Amazon Prime. The new subscription program, dubbed Walmart+, will cost \$98 per year and will give members same-day delivery, unlimited free shipping, deals on products before other customers get them

and fuel discounts at Walmart's gas stations. Walmart is trying to trademark both Walmart+ and Walmart Plus. Walmart will offer a Walmart+ credit card as part of the program. Walmart already offers a Capital One Walmart Rewards card with no annual fee that returns 5% cash back at Walmart.com, including grocery pickup and delivery. The move is seen as part of Walmart's plan to compete directly with Amazon. The main benefit of the Amazon Prime Visa Signature card, exclusive for Prime subscribers, is a 5% return on Amazon and Whole Foods purchases. Amazon Prime costs \$119 annually.

Walmart is experimenting with cashierless checkout at a store in Fayetteville, Arkansas, near company headquarters. The system requires customers to handle purchases and payments themselves. If successful, Walmart will consider expanding it to other stores. Walmart says cashiers will be deployed to other areas and will also be available to help customers. Analysts noted that self-checkouts are notorious for malfunctioning, and customers often need assistance the first few times they try one.

Ace Hardware

Ace is hiring more than 30,000 workers across the US to help keep up with increased demand created by people investing in maintaining and improving their homes and outdoor living spaces, including the yard.

Allison Dowell is the new president and general manager of Emery Jensen Distribution, a division of Ace Wholesale Holdings. She'll be responsible for overseeing strategies and operational plans to grow the wholesale business.

Ace is partnering with Medallia and Gallup to increase their ability to engage their customers and employees and take their customer service to what they describe as "the next level." Medallia provides tech services and Gallup is one of the global leaders in analytics. Ace says the combination will provide them with "game changing insights and actionable advice that will help them drive organic growth."

True Value

True Value is moving to a hub-and-spoke supply chain from a point-to-point one, according to Lyndsi Lee, senior vice president of supply chain. The spokes will stock the fastest-moving items, while the hubs will carry almost all SKUs. Their

goal is to optimize their network and deliver the best possible service to the stores. In April 2018, True Value Company transitioned from a co-op model to a pure-play wholesaler with about 90,000 product SKUs they deliver to 4,500 True Value stores around the world. They took their new model live in the Midwest in 2018 and in the Northeast in 2019. Their fill rates are topping 99% in the Midwest, and more than 600 retailers have joined True Value in the past few years. Lee believes that digitization, instantaneous transparency and using analytics to deploy inventory will be the supply-chain disrupting technologies of the not-too-distant future.

True Value is converting part of one of its largest paint manufacturing facilities in Cary, Illinois, near Chicago, into a retail store. Paint Plus Hardware celebrated its grand opening in mid-July with lots of special deals.

W.W. Grainger

Q2 sales of \$2.8 billion dropped 1.9% compared to Q2 2019. The sales decline was driven by an unfavorable product mix resulting from heightened levels of pandemic-related sales and decreased volume of non-pandemic products. Foreign exchange had a very small, negative impact of 10 basis points in the quarter. The second quarter of 2019 and 2020 had the same number of selling days. On the cost side they generated over \$75 million of sequential cost reductions. Grainger said they gained significant share in a down market, and estimated that the MRO market declined between 14% and 15% in the US.

Amazon

Amazon reported record revenue of \$89.8 billion in Q2, well above expectations. Amazon also recorded record profits even as they spent \$4 billion between April and June to improve worker safety and stabilize their supply chain. They also paid out more than \$500 million in bonuses to front-line employees and delivery partners. For Q3, Amazon is forecasting net sales of \$87 billion to \$93 billion, which would be an increase of 24% to 33% from Q3 last year and well above analysts' estimates.

A significant portion of Zoom's network relies on Amazon Web Services, which reached \$19.81 billion in sales in the second quarter, up 29% from Q2 last year. Zoom became the go-to virtual meeting platform as travel ground to a halt around the globe.

Amazon Prime Day is reportedly being delayed for the second time, according to *Business Insider*. Amazon now plans to hold their immensely popular shopping event in October. Launched in 2015 as a 24-hour event, Prime Day was later changed to two days. Analysts estimate that Amazon Prime Day brought in about \$7 billion in sales in 2019. An internal email that was leaked to the media points to Prime Day occurring the week of October 5, three months later than usual.

Amazon is instituting new limits on how much inventory independent sellers can store in Amazon's US warehouses. Their objective is preventing a large influx of products that are not big sellers during the holidays, such as products for Valentine's Day or Easter. Amazon says sellers typically store about 6 weeks worth of products in Amazon warehouses.

Amazon will allow employees to work from home until January, joining several major tech companies, including Google, that have already announced remote work policies through the end of the year. The policy applies to Amazon's white collar workforce. Offices are technically open in states that allow it, but employees who want to go in have to clear it with their managers, have a temperature check before entering and adhere to social distancing requirements inside.

Amazon is launching a new fleet of bigger, boxier trucks comparable to UPS and FedEx vehicles as part of their efforts to fix delivery delays caused by the pandemic. Amazon ordered more than 2,200 heavy-duty Utilmaster "walk-in" delivery trucks from Michang-based Shyft Group. Drivers showed Reuters training materials from safety and compliance consultants J.J. Keller & Associates. Trucks have been seen in Chicago and training is reportedly underway in Los Angeles.

Amazon is expanding their Scout robot delivery program to Atlanta, Georgia and Franklin, Tennessee. While the program is in the pilot phase, Amazon says Scouts have already delivered tens of thousands of packages. The six-wheeled robots are the size of a small cooler and move at a typical walking pace. They can navigate around people, pets and obstacles.

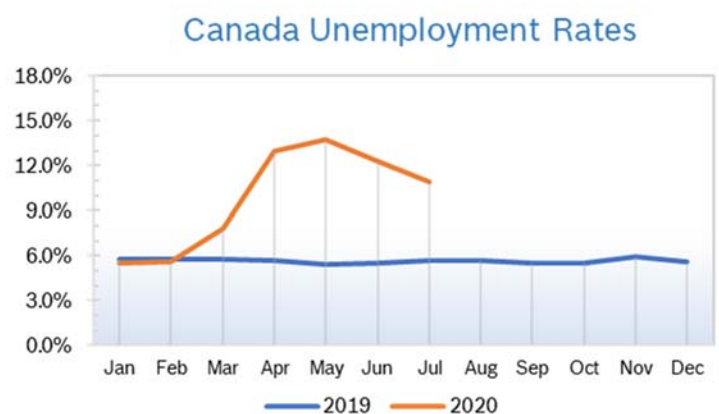
Amazon will require US sellers to share business information with customers in order to make it harder for fraudulent third-party sellers to do business on their website. Starting in September, Amazon will display the business name and address of US sellers on their Amazon.com seller profile page.

Third party sellers may add additional information about their business and products to their profile, but Amazon recommends they not include email addresses in order to prevent spam and abuse.

Amazon acquired the naming rights to a revamped arena originally built for the 1962 Seattle World's Fair that will be the home of a National Hockey League expansion franchise and the WNBA's Seattle Storm. Previously called Key Arena, Amazon is renaming it Climate Pledge Arena so it will be a constant reminder of the urgent need for climate action. Amazon said tickets from the hockey and basketball teams will double as free public transit passes to promote use of public transportation for attendees, including the refurbished Seattle Monorail. The arena will be powered with 100% renewable electricity and at least 75% of the arena's food program will be sourced locally on a seasonal basis, with unused food from events donated to local community food programs.

CANADA SNAPSHOT

Unemployment Drops to 10.9%



- ▶ Canada's unemployment rate dropped to 10.9% in July after falling to 12.3% in June. Unemployment was 5.6% in February before the pandemic.
- ▶ Employment rose by 419,000 (+2.4%) in July, compared with 953,000 (+5.8%) in June. Combined with gains of 290,000 in May, bringing employment to within 1.3 million (-7.0%) of the pre-CV19 February level.

- ▶ Most of the gains in July were in part-time work, especially in retail and food service.
- ▶ Restrictions have been eased in most of Canada, but remain in place in much of southwestern Ontario, including Toronto.
- ▶ The number of people working from home dropped by 400,000, and the number of people working at locations other than home rose by 300,000. Despite this decline, the number of Canadians who worked from home in July (4.6 million) remained significantly higher than the number who usually do so (1.6 million).
- ▶ Total hours worked rose in most industries, led by construction (+19.0%); other services (+13.2%); wholesale and retail trade (+11.0%) and manufacturing (+10.9%).

Consumer Confidence Rises to 82.5

Consumer confidence rose 2.8 points in July to 82.5 after jumping 16 points in June to 79.7, according to the Conference Board of Canada. The monthly Index of Consumer Confidence is constructed from responses to four attitudinal questions posed to a random sample of Canadian households.

Consumer Prices Rise 0.7%

The Consumer Price Index (CPI) rose 0.7% year over year in June after dropping 0.4% in May and 0.2% in April, according to Statistics Canada. Consumer prices were up 0.8% from May to June as the easing of pandemic-containment restrictions triggered rebounds in prices for consumer goods. The biggest bounce-back was gasoline, up 10.5% from May. Excluding energy prices, the CPI was up 0.4% month-over-month. Despite the increase, economists expect inflation to remain tepid, and below the Bank of Canada's (BoC's) target of 2%. Economists noted that despite the rebound, prices have a long way to go to recover. Transportation prices contributed the most to the decline, primarily due to lower gas prices, which are expected to remain a drag on Canada's annual inflation rate. For the year, the Conference Board now expects consumer prices to rise just 1.1%.

Statistics Canada and the BOC issued a joint report that they are developing an alternative gauge for inflation that will be capable of capturing the dramatic shifts in consumer buying patterns that have resulted from the pandemic shutdowns. They stated that the standard measure, the consumer price index, has been overstating the decline in prices that con-

sumers have actually experienced. The newly developed analytical price index, as Statistics Canada is calling it, showed a flat reading for April and a slim 0.1% decline for May. The traditional CPI relies on a hypothetical basket of goods and services that Canadians buy every month that is weighted by volume and frequency. Unfortunately many of the items (such as flights, indoor dining, etc.) have been unavailable or very difficult to spend money on while other items (such as hand sanitizer, prepared foods and baking supplies) have become a much higher priority.

GDP Grows 4.5% in May

Real GDP grew 4.5% in May, according to Statistics Canada. The increase followed two months of unprecedented declines when emergency measures to slow the spread of CV19 resulted in widespread shutdowns. In May, provinces and territories started reopening sectors of their economies to varying degrees. While May's gains offset some of the March and April declines, economic activity remained 15% below February's pre-pandemic level. Both goods-producing (+8.0%) and services-producing industries (+3.4%) were up and 17 of 20 industrial sectors posted increases in May. Statistics Canada issued a preliminary "flash report" for June, stating that GDP likely increased 5% in June, but will decline 12% overall for the second quarter. Estimates will be revised the end of August when the official report for the second quarter is released.

Construction rose 17.6% in May with all types of construction activity expanding in the month. The easing of CV19 restriction in May, especially in Ontario and Quebec, contributed to the largest monthly increase since the series began in January 1961. Residential construction increased 20.4% following two months of declines. Gains in multi-unit construction along with home alterations and improvements led the way, more than offsetting lower single-unit construction in May.

Interest Rates and Economic Outlook

Bank of Canada (BoC) confirmed in July that it will keep the key interest rate at a historic low of 0.25% until the national economic picture improves, which one of the governors said will "take a long time." The bank's unprecedented purchase of \$5 billion in federal bonds weekly will also continue until the economy recovers.

Housing and Construction News

The annual pace of housing starts, increased 8% in June to a seasonally adjusted annual rate of 211,681 after falling 20.4% in May, according to Canada Mortgage and Housing Corp. (CMHC). Much of the increased activity took place in Ontario, Canada's most populated and largest real estate market. Starts in Ontario increased 37% in June to a seasonally adjusted annual rate of 76,341 units. CMHC continues to expect housing starts to fall between 51% and 75% from the first quarter to this fall. The agency has also forecast a decline in home prices of up to 18% from peak, but thus far that has not been the case.

Canada's home sales jumped 63% in June after rising 56.9% in May and were up 15.2% from June 2019 on an unadjusted basis. The number of newly listed properties climbed 49.5% from May to June and available inventory was at a 3.6 months' supply on a national basis, a 16-year low. Actual sales price was up 6.5% year over year.

Mortgage rates are expected to remain near historic lows until the economy shows signs of recovery, according to Can-Wise Financial Mortgage Brokerage. According to Ratehub.ca, the best five-year fixed rate today is 2.14%.

May Retail Sales Rise 18.7%

Retail sales rose 18.7% to \$41.8 billion after falling 24% in April. Motor vehicle and parts dealers led the growth, followed by an increase in sales in 10 out of 11 subsectors. However, sales were 20% below February's pre-pandemic level. Many retailers went ahead with reopening plans in May, although 23% of retailers remained closed. Retail sales in volume terms were up 17.8% in May, following a record decline of 24.1% in April. Sales were up in every province, led by Ontario and Quebec. Given the rapidly-evolving economic situation, Statistics Canada is providing an advance estimate of June sales. Early estimates suggest that retail sales increased by 24.5% in June. Owing to its preliminary nature, this figure will most likely be revised.

Retail Ecommerce Sales Grow

The CV19 pandemic led many Canadian retailers to start or expand their ecommerce platforms in April in response to physical distancing measures and brick and mortar store closures, and ecommerce sales were still growing in May. On an

unadjusted basis, retail e-commerce sales were \$3.8 billion in May, accounting for 8.0% of total retail trade. On a year-over-year basis, retail e-commerce increased 112.7%, while total unadjusted retail sales fell 18.2%. When adjusted for basic seasonal effects, retail e-commerce grew 0.7% in May.

Retail Notes

Walmart Canada (WMCA) plans to spend \$3.5 billion CA (\$2.58 billion US) over the next five years to better tie together physical and digital shopping, "reduce payment friction" and make distribution and fulfillment more efficient. Most of the money will go toward distribution centers, including new construction and upgrades. WMCA says the investment will speed up e-commerce for customers and touch every aspect of their business.

Walmart will also renovate more than 150 stores over the next three years, about one-third of the stores in Canada. They plan to create a new checkout experience that will reduce touchpoints, along with bigger self checkouts and better mobile payment technology. They are also adding electronic shelf labels and scanners, robotics and computer-vision cameras that will help minimize touch and maximize efficiency and accuracy. They plan to use AI software to more accurately predict and better plan volume.

MARKET TRENDS

Economic Projections for 2020

Goldman Sachs cut their previous estimate for GDP for this year, and now sees the economy shrinking 4.6% in 2020 rather than the 4.2% contraction previously estimated. A new round of restrictions and continued stay-home orders will continue to be a drag on the economy and limit the strength of the rebound. The recent resurgence in CV19 cases over much of the country has kept Americans from traveling and returning to restaurants and stores. In addition, many activities that typically pump money into the economy in the fourth quarter are being curtailed, from professional sports and entertainment to Black Friday activities, which are likely to primarily occur online this year. However, Goldman expects demand to be pushed into next year, and has increased their estimate for first quarter growth to 8% from 6.5%. The Congressional Budget Office (CBO) sees GDP shrinking 5.9% this year, and the jobless rate

remaining in double-digits, although they now expect unemployment to end the year at 10.5%, down from their previous forecast of 11.5%. The CBO sees a long, slow recovery after the initial bounceback, with the economy growing about 2% a year and unemployment averaging 6.1% through 2030.

National Mask Mandate Would Save Lives and Money

Wearing a mask could save the domestic economy up to 5% of GDP, according to an analysis by Goldman Sachs. The team of economists makes the case that a national face-mask mandate could partially substitute for renewed lockdowns as infections flare in a number of southern and western states. The renewed lockdowns are estimated to subtract 5% from GDP. In addition, medical experts state that wide-scale wearing of masks would also save thousands of lives and help halt the spread of the virus. In mid-July Walmart stepped up and announced masks would be required in all Walmart and Sam's Club stores regardless of whether or not masks were required by the local government. Many more retailers quickly followed suit, with The Home Depot and Lowe's joining Menards mandating masks along with grocers Kroger and Publix and a host of other retailers.

During July the importance of masking up became more widely accepted as myriad national health officials and epidemiologists strongly urged people to comply, Congress instituted a mandate for both houses and President Trump endorsed mask wearing. An ABC poll at the end of the month showed that 9 out of ten Americans polled had worn a mask when going out in public over the previous week. According to a poll by Harvard CAPS/Harris, released by The Hill, 79% of people said they supported a national face mask mandate. Seven in 10 respondents also said they agreed with the idea of fines for people who do not wear masks. By the end of July, only two states, Iowa and South Dakota, had no type of mask mandate in place anywhere in the state.

People Still Want to Buy Homes

The share of Americans who are considering the purchase of a home in the next 12 months was 11% in the second quarter of 2020, essentially flat when compared to the same quarter in 2019 (12%), according to the National Association of Home Builders' (NAHB) latest Housing Trends Report. That's actually good news, as it indicates that the pandemic has not

substantively affected the overall number of Americans who want to buy a home. The share of prospective first-time buyers was about the same in the second quarter of 2020 (59%) as it was a year earlier (58%). The data for this report was collected in the second half of June, when the labor market was showing signs of recovery, before CV19 cases began resurging in much of the country.

Millennials were most likely to want to buy a home (19%), even slightly higher than a year earlier (17%). Boomers, on the other hand, were the least likely, with the share planning a home purchase falling from 7% to 5%. Across regions, the share of respondents who are prospective home buyers was unchanged in the Northeast (10%) and South (12%), essentially flat in the West (13%), and just slightly lower in the Midwest (down to 9% from 11%). Other research shows that the percentage of single women buying a home has risen from 15% to 20% of buyers, and that single women are twice as likely to buy a home as are single men.

According to Wells Fargo, the broad-based strength in new home sales reflects a shift in consumer attitudes toward homeownership. With people spending more time at home during the pandemic, many households are looking for more space to accommodate remote workspaces and the presence of more people in the home for more hours each day. New homes provide homebuyers better options, as new homes are more apt to be internet-friendly and have more open space. The trend out of cities and urban spaces and into suburbia and rural America is also continuing as people search for places where it's easier to social distance from your neighbors.

Inventories of existing homes remain persistently low, making new homes a more viable option. The strength in home sales likely has considerable room to run, according to housing analysts. Mortgage rates recently hit new lows and applications for mortgages to purchase a home are nearly 20% above their year ago level. The nation's demographics also increasingly favor homeownership. The number of millennials turning 40 will rise every year through the end of this decade.

As strong as the recent surge in new home sales has been, it does not show the full picture. New home sales largely reflect sales of the big national and larger regional homebuilders but exclude most contractor-built homes. That category of homes has become larger as more home buyers have shown interest in reviving neighborhoods. Teardowns and rebuilds

have become commonplace. Infill development has also increased, with townhomes making a big comeback among buyers grappling with affordability challenges.

NAHB looks for new home sales to trend higher this year, providing a lift to producers of building materials, furniture and home furnishings, as well as all the service providers tied to housing.

Remodeling Confidence and Trends

The Remodeling Market Index (RMI) posted a reading of 73 in the second quarter, according to the NAHB. This is the second quarter using the new RMI, which was recently redesigned in order to make it easier for respondents and to improve its ability to interpret and track industry trends. The new series is not seasonally adjusted; therefore, index readings cannot be compared quarter to quarter.

The new RMI survey asks remodelers to rate five components of the remodeling market as “good,” “fair” or “poor.” Each question is measured on a scale from 0 to 100, where an index number above 50 indicates that a higher share view conditions as good than view them as poor.

The Current Conditions Index is an average of three of these components: the current market for large remodeling projects, moderately-sized projects and small projects. The Future Indicators Index is an average of the other two components: the current rate at which leads and inquiries are coming in and the current backlog of remodeling projects. The overall RMI is calculated by averaging the Current Conditions Index and the Future Indicator Index. Any number over 50 indicates that more remodelers view remodeling market conditions as good than view them as poor.

In the second quarter, all components and subcomponents of the RMI were well above 50. The Current Conditions Index averaged 77, with large remodeling projects (\$50,000 or more) yielding a reading of 70, moderately-sized remodeling projects (at least \$20,000 but less than \$50,000) at 78 and small remodeling projects (under \$20,000) with a reading of 83. The Future Indicators Index averaged 70, with the rate at which leads and inquiries are coming in at 72 and the backlog of remodeling jobs at 67.

In order to track quarterly trends, remodelers are asked to compare market conditions to three months earlier, using a ‘better,’ ‘about the same,’ ‘worse’ scale. This index posted a reading of 66, indicating that remodelers believe that market conditions have improved substantially since the first quarter. According to NAHB, many remodelers are busier than they were prior to the pandemic, with decks, patios, porches and kitchen and bathroom jobs popular. In addition, other sources have reported that creating or remodeling a home office is becoming increasingly popular.

Confidence in Distribution and Warehouse Markets Strong

While many commercial building sectors are struggling, Distribution and Warehouse construction remains an area of confidence, according to the ENR’s latest Construction Industry Confidence Survey. Warehouses, fulfillment centers, data centers and public health facilities are all areas of strength, and respondents noted that manufacturing may grow as the trend toward locally sourced materials is encouraging companies to move plants back to the US. A strong market for office and retail renovation may develop as both companies and builders adjust to the new realities of lower density and higher standards of sanitation.

Most Valuable Brands

Amazon retained its position as the world’s most valuable brand, according to the most recent annual survey done by Kantar. According to the BrandZ Global Top 100 Most Valuable Brands 2020 rankings, Amazon’s value grew 32% this year to \$415.9 billion. In second position was Apple, whose brand value grew 14% to \$352.2 billion. Microsoft was ranked third and Google took the fourth spot. The ranking is based on consumer insights from over 3.8 million consumers around the world, covering more than 17,500 different brands in 51 markets. Kantar noted that the pandemic has accelerated certain trends that were already evident, such as the trend to online shopping.

The Office of the Future

The workplace has gone through many transformations over the years, from crammed open offices to the cubicle era to an open office floor plan that was designed to create sharing and interaction, but in fact resulted in lower job satisfaction and productivity. The pandemic has assured that the office of tomor-

row will change profoundly, with many changes underway now as companies try to assure that employees who want to return to work are safe. Telecommuting and remote working has proved to be far more productive than anyone anticipated, and more and more companies are questioning how much expensive real estate they really need. Some giants such as Twitter and sister-company Square, as well as Shopify, have already told employees they can work from home indefinitely. Facebook says that up to 50% of employees may work from home permanently in the future. And Google recently announced employees can work from home until July 2021. The general consensus is that while the office will not go away, it will profoundly change as employers reconfigure floorplans to allow for greater social distancing, which also gives employees something that has long been in short supply: privacy. The need for touch-free, safe environments may give rise to robotic cleaning crews and powerful central air cleaners and redesigns for everything from elevators to restrooms. Other options being considered include staggered shifts so fewer people are in the office at any one time with in-depth cleaning in between.

GSA Turns to Amazon and Overstock

The General Services Administration (GSA), the agency that manages the government workforce, announced contracts with Amazon, Overstock and Thermo Fisher Scientific under a three-year pilot program that will allow authorized personnel to make micro-purchases of items costing less than \$10,000 through the online marketplaces. Amazon says the new system will be efficient and cost-effective for the government and save money for taxpayers.

Retailers Continue to Adjust to the New Normal

Retailers are looking at a variety of tactics to adjust to the realities of doing business during a pandemic that shows few signs of receding any time soon. Because most retail employees are on the front lines and don't have the option of working from home, many retailers are strengthening how they are rewarding employees and protecting employees and customers. Target recently raised their minimum wage up to \$15 per hour; something they had pledged to do back in September 2017, when they raised the minimum wage to \$11 an hour. Both Lowe's and Home Depot have awarded both full-time and part time associates bonuses. Walmart announced they will not be open Thanksgiving Day, and instead are choosing to forego the

traditional sales and give employees the day off to spend with their families. Target quickly followed suit. Target is also giving frontline store workers and hourly distribution center workers a bonus and offering virtual doctor visits and additional sick leave benefits through the end of the year.

Ecommerce Will Grow 18%

Online sales growth is now projected to grow an upwardly revised 18% this year, according to Emarketer. They also forecast that total retail sales will drop 10.5% this year, with brick-and-mortar sales falling 14%. Both the number of digital customers and average spending have been climbing, with digital sales to those 65 and older growing 12.2%. Online sales have been driven by a surge in curbside pickup. Emarketer now expects US curbside pickup sales to grow to \$58.52 billion, up 60.4% from its initial forecast of 38.6% growth.

Retailers Team Up to Replace Plastic Shopping Bags

Walmart, Target, CVS and other retail giants are on a mission to find a replacement for the single-use plastic shopping bag. The group's goal is to identify, pilot and implement innovative alternative designs for something to replace the single-use bag that still deliver the convenience consumers love but have much less impact on the environment. An estimated 100 billion single-use plastic bags are made in the US each year, and just a fraction of those are recycled. Many cities had taken measures to reduce and discourage use, but those efforts were largely reversed by the pandemic. Overnight, many retailers banned the use of reusable shopping bags, and many also took away recycling bins. Reportedly plastic bag use has skyrocketed.