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Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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US ECONOMY

Exchange Rates November 29, 2019

Euro	1 Euro = \$1.102	\$1.00 = 0.908 Euros
Canadian Dollar	1 CAD = \$0.752	\$1.00 = 1.329 CAD
Japanese Yen	1 Yen = \$0.008	\$1.00 = 109.478 Yen
Chinese Yuan	1 Yuan = \$0.142	\$1.00 = 7.033 Yuan
Mexican Peso	1 Peso = \$0.051	\$1.00 = 19.543 Pesos

Market Watch November 29, 2019

DOW	28,051	3.7%
NASDAQ	8,665	4.5%
S&P 500	3,141	3.4%

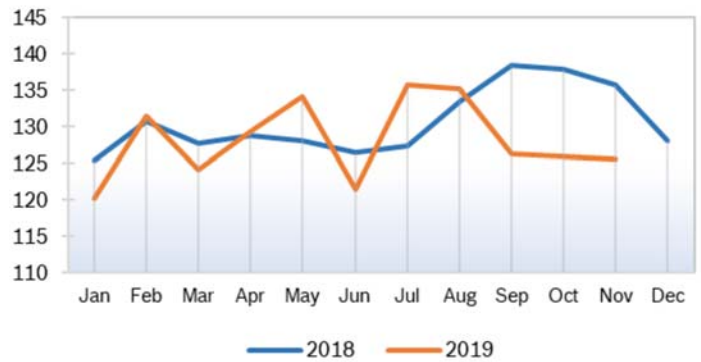
The major indexes all posted strong monthly gains in November, driven in large part by investor optimism that a deal with China that would end the long trade war is actually in the works, and that tariffs will not increase in mid-December as scheduled. Analysts note that Black Friday week spending is a good barometer for how strong consumer spending will be over the rest of the season.

Consumer Spending Rises 0.3%

Consumer spending rose 0.3% in October after rising 0.2% in September. The increase beat economists expectations of a 0.2% rise. It was the eighth consecutive monthly increase for consumer spending. Much of the increase in spending in October was driven by increased spending on electricity and gas. The Commerce Department data showed household income was flat overall but wages and salaries grew at a seasonally adjusted annual rate of 0.4%, up from 0.1% in September. Wells Fargo expects consumer spending to moderate but not decline and are holding with their forecast for a 5.0% increase in holiday spending. Consumer spending accounts for more than two-thirds of US economic activity.

Consumer Confidence Falls to 125.5

Consumer Confidence Index



- ▶ The New York-based Conference Board’s Consumer Confidence Index fell to 125.5 in November from 125.9
- ▶ The Present Situation Index, which is based on consumers’ assessment of current business and labor market conditions, fell to 166.9 after rising to 172.5 in October.
- ▶ Consumers were less optimistic about both the short-term outlook and the labor market.

*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.

Consumer Prices Rise 0.4%

The Consumer Price Index (CPI) rose 0.4% in October after being flat in September. The year-over-year CPI increase rose to 1.8% in October from 1.7% in September. Excluding the volatile food and energy categories, core prices rose 0.2% in October after rising 0.1% in September and were up 2.3% from a year ago. A 3.7% jump in gas prices accounted for half of the increase, but the cost of gas is still 7% below a year ago. The Fed’s preferred personal consumption expenditures (PCE) price index rose 0.2% in October, with PCE up 1.3% year over year. Core inflation edged up 0.1% in October and was up 1.6% year over year, well short of the Fed’s target of 2%. The core PCE index is the Fed’s preferred inflation measure. It has consistently undershot the U.S. central bank’s target of 2% this year.

Unemployment Falls to 3.5%

U.S. Unemployment Rates



- ▶ The economy added 266,000 new jobs in November, well ahead of expectations of 180,000 jobs and the unemployment rate fell to a 50-year low of 3.5% after rising to 3.6% in October.
- ▶ Job gains for September and October were revised up by a total of 41,000 new jobs. Stats were bolstered by 41,000 auto worker returning to work following the end of the labor strike at GM.
- ▶ Average hourly earnings rose 7 cents per hour and have risen 3.1% over the past 12 months.
- ▶ The current economic expansion that began in June 2009 officially became the longest on record in July 2019, and continues to confound economists, who warn that the current pace will slow down.

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 Drop in September

The number of job openings fell to 7.0 million in September from an upwardly revised 7.3 million in August and a peak of 7.6 million in November 2018, according to the most recent Job Openings and Labor Turnover Survey (JOLTS) from the U.S. Bureau of Labor Statistics. Over the month, hires rose to 5.9 million after dropping to 5.8 million in August and separations held steady at 5.8 million. Within separations, the quits rate and the layoffs and discharges rate were little changed at 2.3% and 1.3%, respectively. The quits rate is viewed by policymakers and economists as a measure of job market confidence.

Chicago PMI Rises to 46.3

The Chicago Purchasing Managers' Index (PMI) rose to 46.3 in November after falling in both September and October. However, the two-point gain was not enough to push the index over 50, the level that shows expansion, and it remained in contraction for the third consecutive month. New Orders improved the most, rising 12.5 points to 49.4 and Order Backlogs recovered and added 11.9 points to 45.0. Production slipped to 42.3 after rising to 46.8 in October. Inventories fell 8.7% to 43 and Prices Paid continued to cool, falling to 53.5 from 54.8 in October. November's special question asked whether respondents were passing on the costs of tariffs or absorbing them. The majority (57%), said they were not passing on the costs of tariffs. The strong dollar, slowing global economy and trade disputes have curbed demand for goods made in America. Stable but softer growth in the much larger service side has been keeping the economy growing.

Wholesale Prices Rise 0.4%

The Producer Price Index (PPI) rose 0.4% in October after falling 0.3% in September and was up 1.1% year over year. Core producer prices, which exclude food and energy, inched up just 0.1% in October and the 12-month core rate fell to a three-year low of 1.5% in October from 1.7% in September. The wholesale cost of services rose 0.3% in October after falling 0.2% in September and the wholesale cost of goods rose 0.7% after falling 0.5% in September. About half of that increase was due to a sharp rise in prices at the pump.

Q3 GDP Growth Revised Up to 2.1%

Q3 GDP growth was revised up to 2.1% from 1.9%, according to the second estimate from the Commerce Department. The upward revision exceeded economists' expectations. Consumer spending was unrevised at a 2.9% annual rate in the third quarter, down from 4.6% in the second. Business (nonresidential) fixed investment, originally reported to have fallen 3.0%, was revised to show a 2.7% decline. The upward revision reflected more inventory accumulation than originally reported and a less steep pace of contraction in business investment. Corporate pre-tax profits grew just 0.2% but rose a solid 2.7% year over year. Income growth remained strong and wages and salaries grew 3.5% at an annualized rate. Real disposable income was up a strong 2.9%, a solid underlying fundamental that points to continued economic expansion in the foreseeable future, according to Wells Fargo. Trade during the

quarter was broadly neutral. Heavy industry has been hurt by the ongoing trade dispute with China, a strong US dollar and a faltering global economy.

Tariff War Wages On

Just before Thanksgiving, the US announced that negotiation with China are continuing, and a deal is “near.” Additional tariffs are scheduled to take affect December 15, and the waters were muddied the end of the month when President Trump signed two executive orders supporting the protestors in Hong Kong, a move the Chinese government termed “sinister.” US factory output is down nationally, and agricultural exports to China have plunged more than \$10 billion since last year.

HOUSING & CONSTRUCTION

Builder Confidence Drops to 70

Builder confidence dropped one point to 70 in November after rising to 71 in October, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). Lot shortages, affordability issues and a chronic shortage of labor all make it harder for builders to take full advantage of the strong labor market and low mortgage rates. The HMI index gauging current sales conditions fell two points to 76 and the measure charting traffic of prospective buyers dropped one point to 53. The component measuring sales expectations in the next six months rose one point to 77. Builder Confidence rose in all regions except the Midwest.

Building Permits Rise 5.0%

Building permits rose 5% in October to a seasonally adjusted annual rate of 1.46 million units after falling to 1.39 million units in September. **Single-family permits rose 3.2%** to 909,000 annual units and multifamily permits rose 8.2% to 552,000 annual units. Regional permits were mixed.

Housing Starts Rise 3.8%

Housing starts rose 3.8% in October to a seasonally adjusted annual rate of 1.31 million units after falling to 1.26 million units in September. **Single-family starts increased 2.0%** to 936,000 units after rising to 918,000 units in September. Multifamily

starts rose 8.6% to 378,000 units after falling to 338,000 units in September. The single-family market appears to be gaining momentum, according to analysis from Wells Fargo, and NAHB says that production is picking up, even though it is still below what is needed to meet demand.

New-Home Sales Fall 0.7%

New-home sales fell 0.7% in October to a seasonally adjusted annual rate of 733,000 units but sales for September were revised up by 37,000 units. New home sales were up a strong 9.6% from October 2018. Sales for the past two months have been at the strongest pace since 2007. Forty-five percent of new homes sold in October were priced below \$300,000, an indication that more millennials are buying, according to NAHB. The inventory of new homes for sale rose slightly to 322,000 in October, a 5.3-months' supply at the current sales pace, up slightly from September. The median sales price fell to \$316,200 in October from \$321,000 in September and was down from \$328,300 in October 2018. Regional new home sales year to date were mixed. 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 Rise 1.9%

Existing home sales rose 1.9% in October to a seasonally adjusted annual rate of 5.46 million homes after falling to 5.38 million homes in September. Sales were up 4.6% from October 2018. Regional sales were mixed. Total housing inventory fell 2.7% in October to 1.77 million homes and was down 4.3% from October 2018. Unsold inventory is at 3.9-months' supply at the current sales pace, down from a 4.1-months' supply in September and a 4.3-months' supply in October 2018. The median existing home price for all housing types in October rose 6.2% to \$270,900 after falling to \$272,100 in September. October was the 92nd consecutive month of increasing home prices.

Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence	62 (+2)	74 (+1)	58 (N/C)	81 (+3)
Building Permits	+9.2%	+5.2%	-5.0%	-1.4%
Housing Starts	-0.5%	+6.8%	-7.4%	-10.3%
New Home Sales	-11.1%	+15.7%	-7.5%	+9.1%
Existing Home Sales	-1.4%	+4.4%	+1.6%	-0.9%

Mortgage Rates Fall to 3.68%



- ▶ A 30-year fixed-rate mortgage (FRM) fell slightly to 3.68% at the end of November after rising to 3.75% at the end of October. Mortgage rates were 4.81% at the end of November 2018.
- ▶ Freddie Mac expects rates to average 4.8% next year.
- ▶ Low mortgage rates have caused a corresponding increase in applications for mortgages and refinancing.
- ▶ Freddie Mac notes that rates have been trading in a narrower range for the past two months and believes that recent improvements in the economy and easing financial conditions will provide a gentle tailwind to the real estate market rebound over the next few months.

POWER TOOL INDUSTRY

Bosch

Bosch Power Tools debuted their biggest contest ever, “Break Up 2 Trade Up”, an interactive contest that invites contestants to share why they’re willing to abandon their current battery platforms. A total of 1,000 winners will receive a prize package that includes a Bosch CORE 18V battery kit and their choice of seven tools. The CORE 18V lithium-ion battery delivers 80% more battery life than their previous generation despite being lighter weight. The new battery is compatible with all Bosch power tools and chargers and features a CoolPack design that maintains a low temperature much longer while still delivering maximum power. Contestants entered by posting a brief video on Instagram. The contest ended November 21st.

Stanley Black & Decker

Robert Baird Global Industrial Conference:

Jim Loree is finishing up his third year as CEO, but has been with SB&D since 1999. When he started they were at about \$2 billion in revenue; this year they’ll be about \$14 billion.

They have long-term financial objectives of 4% to 6% organic growth and 10% to 12% revenue growth. The last three years have been challenging due to the \$900 million in headwinds they’ve had to deal with due to tariffs, foreign exchange, the strongest dollar in decades and some cost inflation two years ago.

Their ecommerce business is the leader in their industry, with \$1 billion in revenue and annual growth of around 20%.

They’re expecting between \$100 and \$150 million will be freed up next year due to their margin resiliency program. That program doesn’t have much to do with volume, it’s really all about cost and margin, and its impact is not included in their guidance.

The Lawn & Garden business is counter-seasonal to their Tools business, which is helpful, because the first quarter is always a challenge in terms of volume, but it’s a great quarter for Lawn & Garden outdoor power equipment.

Their acquisition of MTD and Sears outdoor power equipment opened up a \$20 billion market, which has similar or sometimes identical channels as the ones they are already in. Their option to acquire the remaining 80% of MTD becomes effective in July 2021 and remains in effect for 10 years.

They believe they have the battery system market covered, and the batteries they offer cover a broad spectrum of requirements. They described their one serious competitor, who they defined as Milwaukee, as very aggressive and very strong, and said that they believe that Milwaukee is the company to beat in North America. They feel that SB&D and Milwaukee are doing most of the innovation in North America today.

Since acquiring Craftsman and MTD they've had their hands full with dealing with what they've bought and going through a major definition of what they refer to as "the swim lanes," which brands go into which channels. They think sometime in 2020 they will have some capacity for acquisitions and there will also be some capital available.

About two-thirds of the \$300 to \$500 million in savings they're looking for over the next three years will come from cost reductions. Many are coming from structural changes, such as merging the Emerging Markets groups with the tools group. They also reduced the Industrial business from three business units to one.

The Security business used to be a star performer, and was a great stabilizer during the Great Recession, contributing 50% of operating margin in 2009. But over the past 5 to 7 years it's really begun lagging. They put the Security business group on review and so far they are doing a terrific job of turning the business around.

Other News:

SB&D will close their Greenfield, Indiana production plant and lay off 139 employees as part of their plans to consolidate worldwide operations. The move is part of SB&D's announced plan to cut \$200 million in annual costs. The Greenfield facility was in expansion mode as recently as 2015.

SB&D was named Best Corporate Steward by the US Chamber of Commerce Foundation as part of their 2019 Citizens Awards. The program recognizes the most innovative and

impactful corporate citizenship initiatives that raise the bar for social responsibility and help spearhead the transformation to a strong, healthy and sustainable future. By 2030 SB&D plans to enable 10 million creators and makers and ensure that their global operations are carbon positive.

SB&D chose DataRobot to help them turn their business into one driven by artificial intelligence. DataRobot will allow them to enhance their predictive analytics capabilities and reduce time spent on data wrangling and building models so the team can focus on other business challenges and opportunities. DataRobot will be deployed across various business units.

SB&D appointed Adam Wayne Hughes as the new president of Houston-based Stanley Oil & Gas, SB&D's oil field services company that performs inspections, welding, coating and bending services for the pipeline sector.

TTI/Techtronic Industries

A large office building planned for a Menomonee Falls business park is most likely part of a secondary corporate campus for Milwaukee Electric Tool, according to the *Milwaukee Business Journal*. The 120,000-square-foot office building has room for a 12,000-square-foot future addition. Last year Milwaukee began construction of a three-story, 114,500-square-foot global new product development center across the road from their headquarters that should be completed soon.

Trimble

David Barnes will join the company in December and become Trimble's new CFO in January 2020. Barnes was most recently CFO at MWH Global, a supplier of engineering and construction services, and after MWH was sold to Stantec, Barnes took over operational responsibility for Stantec's businesses outside the U.S. He brings more than 35 years of financial, strategic and operational management experience to Trimble.

Trimble, Hilti and Boston Dynamics will collaborate on exploring the integration of Trimble's and Hilti's construction management software solutions, GNSS technology and reality capture devices with Boston Dynamics' Spot Robot platform. The companies believe that autonomous robots can play a significant role in construction, handling routine and repetitive tasks, especially in hazardous environments.

RETAIL

Retail Sales Rise 0.3%

Retail sales rose 0.3% in October after dropping 0.3% in September, according to the latest figures from the Commerce Department. Core retail sales, which exclude food services, car dealers, gasoline stations and building materials stores, were also up 0.3%; core retail sales for September were revised to show they declined 0.1%. Core retail sales correspond most closely with the consumer spending component of GDP. The Fed attributed much of September's decline to the strike at General Motors that began September 16, but the strike was not resolved until the end of October, and analysts say the pull-back pointed to a broader slowdown in manufacturing across the US and global trade tensions. While the October rebound was not robust, it restored faith that consumer spending would hold up through the holidays. Sales at US nonstore retailers, which are mostly online purchases, rose 0.9% from September and were up 14.3% from October 2018.

Holiday Sales Recap

The National Retail Federation said a record 190 million consumers shopped from Thanksgiving Day through Cyber Monday this year, an increase of 14% from 2018. About 124 million shopped in stores, 142 million shopped online and about 75.5 million did both. Shoppers spent an average of \$361.90 on holiday items over the five days, up 16%. The biggest spenders were 25-35-year-olds at \$440.46. NRF says that with the condensed holiday season, shoppers are feeling under pressure to get their shopping done. Sales from smartphones accounted for 36% of online sales, up from 24% last year. However, big storms throughout much of the country snarled both land and air traffic, and retailers are having a tough time fulfilling their promises of one and two-day delivery.

The Home Depot

Q3 revenue rose 3.5% to \$27.22 billion, slightly below expectations. **Comp sales rose 3.6%**, below expectations of a 4.7% increase. Comp sales in the US were up 3.8% and were negatively affected by the timing of Black Friday last year. THD cut their forecast for fiscal 2019, and now expects sales to rise 1.8% compared to the prior forecast of a 2.3% increase. That forecast implies fiscal revenue of \$110.15 billion.

CEO Craig Menear said that their heavy investment in growing their online business has taken longer to generate benefits for fiscal 2019 than anticipated. Originally the initiatives were designed to increase sales 6% while keeping operating margins flat.

Q3 Conference Call with Analysts:

All US divisions as well as Canada and Mexico posted positive comp sales. Online traffic was healthy, conversion is up and sales were up 22% from Q3 2018, with good growth in most categories. More than 50% of online orders are picked up in stores.

Comp transactions rose 1.8% overall, and big ticket comp transactions, defined as those over \$1,000, which represent approximately 20% of US sales, were up 4.8%. Excluding hurricane-related markets, big ticket comp transactions were up 5.5%.

Comp average ticket also increased 1.8%, with increases being driven by customers trading up to new and innovative items. Commodity deflation in lumber and copper trimmed 80 basis points from results. They did not see a lot of variation in sales from region to region.

Sales for Pro customers, which represent approximately 45% of overall sales, continue to outpace DIY sales in the US. They are investing in resets, services and a suite of tools to deliver better service to Pros and save them time and money. They saw strong growth in Pro-heavy categories like fasteners, pneumatics, concrete and installation.

Their B2B website for the 780,000 Pros signed up is coming along very well but there is still functionality that needs to be completed before all the enhancements for larger Pro customers can be turned on.

They are continuing to rollout automated lockers; approximately 1,300 stores now have pickup lockers for online orders. Approximately 95% of customers rating their experience picking up orders from their locker give it five out of five stars.

There was strength across most departments with Tools above company average. They are proud that they are Makita's exclusive big-box partner and will be rolling out more products in Makita's 18-volt outdoor line.

More than 60% of US stores now have a new look and feel and customer response has been very positive. Customer service scores in the category of neat and clean have increased 120 basis points from last year and scores for satisfaction with check-out times have increased more than 280 basis points from last year.

It was new CFO Richard McPhail's first conference call with analysts.

At the end of the third quarter they had an ending store count of 2,290 and total sales per square foot of \$449, up 3.5% from last year. Inventory turns were 5x, down from 5.2x last year, reflecting a load-in of inventory in support of their strategic initiatives.

They have seen shrink increase and are implementing both in-store and technology measures in high-risk stores. They are also working on long-term initiatives to address this issue.

Market growth overall has moderated over the past year, and while overall growth may be below the average of 4% they built into their plans, the overall market is about \$600 billion; they have about a 17% share. Third-party data indicates that they took significant share in Q3, so they believe this means they have an opportunity to grow going forward regardless of overall market growth as long as they stay focused on the customer and continue to drive the business.

They are sticking to their plan of delivering great every day value even though there is an increase in promotional activity in the market overall.

They believe the impact of tariffs is manageable. Their finance teams, merchants and data analytics teams have really drilled into the overall impact on the business and they know down to the SKU level the point of origin, the classification of the tariff and the potential impact. They work with their supplier partners to mitigate the impact and maintain unit growth. They will work on mitigating the tariff impact by changing country of origin, makeup of the product itself and adding other features and benefits that can add value to the consumer. So far they have offset well over half of the actual SKU impact of tariffs.

They will provide more insight into their plans for 2020 at their Investor Conference in December.

Other News:

Jennifer McKeehan, vice president, supply chain for THD is one of the 40 Under Forty honored this year by the *Atlanta Business Chronicle*.

Lowe's

Q3 sales fell 0.2% to \$17.4 billion as comparable sales growth of 2.2% overall and 3.0% in the US was offset by the impact of previous store closures and the exit of Orchard Supply Hardware. They maintained their guidance for the year and expect total sales to rise 2.0% and comp sales to rise 3.0%.

Q3 Conference Call with Analysts:

Total average ticket grew 3.6% to \$78.71. This was partially offset by a 3.7% decline in total transactions. Traffic was up both in-store and online, but transactions and conversions were down. Consumer project demand is strong and average ticket over \$500 was up 4.0%.

Consolidated comp sales were driven by an average ticket increase of 2.4% partially offset by a slight comp transaction decrease of 0.1%. US comp sales growth of 3% was driven by an average ticket increase of 2.7% and a comp transaction increase of 0.2%.

For fiscal 2020, Lowe's expects total sales to rise 4.0% and comp sales to increase 2.5%. They also plan to add eight home improvement stores.

They feel as if they are on track despite an underperforming ecommerce business, marketplace uncertainties and tariff problems.

Tools and seven other categories delivered above average comps. US comps rose despite low single digit online growth and higher than expected lumber deflation.

All three US divisions and all 15 US geographic regions generated positive comps. Four of their top five performing geographic regions were in the western division, driven by strength in Pro categories as well as appliances and outdoor, improved in-stock and better customer service.

Sales in Canada were disappointing and Canada produced negative comps that were below expectations and pressured overall comps. They will be taking several steps in Canada to improve their long-term results.

Their focus on Pros is paying off, with Pro comps significantly outpacing DIY comps. Their investment in job lot quantities, department supervisors and an improved in-store experience contributed to sales growth as well as a 700 basis points improvement in their Pro customer service scores in the third quarter.

Tools led the merchandising department growth with the strong response to Craftsman continuing to drive market share gains within key Tools categories. Key programs in power tools are also driving growth.

Tools had a lot of activity during the quarter. They launched an exclusive line of DeWalt 12-volt compact tools and introduced new and innovative products from Bosch, Spider and Metabo HPT as well as their exclusive Kobalt line of tools.

Their ecommerce business is “under repair,” delivering comp growth of just 3%, so essentially contributing nothing to overall sales growth. They underestimated the amount of work that needed to be done. They know how to repair their gaps and have a detailed road map, but it will take time and sequencing. They expect online growth to accelerate in the second half of 2020.

Their ecommerce platform is a decade old; they are re-platforming the entire site to Google Cloud to provide much-needed stability.

They are working to separate freight from product costs to improve price perception versus the competition.

They are also improving ecommerce systems and processes so they can quickly add SKUs and vendors who drop-ship so they can expand their online assortment.

They are building capabilities to ship certain SKUs requiring special handling so they can sell basic home improvement items like lithium-ion batteries, cleaning supplies and fire extinguishers online.

They are working to improve their customers’ experience

on the website, including simplifying search and navigation, one-click checkout and the ability to schedule a delivery.

They are investing \$1.7 billion over the next five years to improve their omnichannel supply chain.

They are continuing to work on improving category management and cross-merchandising.

They will be expanding their brand message and promotions with the NFL through their exclusive partnership.

They’ve been adding functionality to the smartphones they issued to associates in the stores earlier in the year by adding new applications that make it easier to update prices in the aisles and allow virtually any associate to do it.

Their investment in technology and store processes is definitely paying off. Their new labor scheduling system and switch to a centralized One Task team now overseeing more than 1,000 stores are ensuring they serve customers better and maximize their payroll dollars.

They are pleased with Pro performance and are now transitioning from retail fundamentals to more strategic initiatives that will grow sales and deepen relationships.

They launched a pilot for their Pro loyalty program during the quarter; early results have exceeded expectations in test markets. They plan to launch the loyalty program nationally in the first half of 2020 as part of a whole program aimed at Pros.

During Q4 they plan to improve the in-store Pro experience with the roll-out of dedicated point of sale terminals at the Pro desk and their first dedicated Black November event for Pros with traffic-driving offers that show Pros how important they are to Lowe’s.

Walmart

Q3 revenues rose 2.5% to \$127.99 billion and **comp sales rose 3.2%**, the 21st consecutive quarter comp sales have risen. Grocery accounts for more than half of Walmart’s US sales.

Ecommerce sales were up 41% from Q3 last year, given a boost by Walmart’s expansion of grocery delivery services. Walmart has targeted 35% online sales growth for the full year.

Walmart now has more than 3,000 locations for grocery pickup and more than 1,400 that offer grocery delivery. Results were viewed as very solid despite a decline in operating income because Walmart has been investing in online delivery. Analysts are speculating Walmart will reconsider the monthly charge for their InHome Delivery service, currently \$12.95 per month, as Amazon just eliminated their \$14.99 monthly fee for Amazon Prime members.

Walmart has been implementing changes to improve sustainability, including installing 120 electric car stations at stores, and plans to make shopping carts more sustainable by having their shopping cart producer, Unarco, who has produced 3.4 million carts for Walmart, use a patented process of remanufacturing that essentially recycles old shopping carts.

Sears

By February 2020 there will be just 182 Sears and Kmart stores left in business, down from 425 locations as of February 2019. Just five years ago there were nearly 2,000 stores in operation. This latest round of closings is in addition to the 100 stores that will close by the end of the year and the 26 stores that closed this fall. Sears is now owned by a new entity called Transformco, owned by Eddie Lampert, who was Sears Holding's largest creditor and shareholder, and who purchased the strongest Sears and Kmart locations in a bankruptcy auction in February for \$5.3 billion. An affiliate of Transformco recently bought roughly 400 Sears Hometown stores.

Sears launched Sears Plus, a new program that offers members a wide range of benefits, including 20% off clothing, free tire repair, free delivery and haul-away of appliances and mattresses, cash rebates on major appliances and heating and cooling systems and maintenance and steep discounts on other car, plumbing and appliance services. The program launched in late October in select markets and will roll out nationally in the coming months, according to Sears.

Menards

Menards is expanding their Midwest range and now has 20 locations in Ohio, with a new store planned that is expected to draw customers from both Southern Ohio and West Virginia. Menards operates about 20 stores in Ohio now, and a total of more than 300 locations in 14 states. They are also planning to expand in Pennsylvania.

Ace Hardware

Q3 revenue rose 7.2% to \$1.53 billion, a new company record. **Comp sales rose 3.2%** and average ticket rose 2.4%. Comp transactions were up 1%. Total wholesale revenues rose 4.7% to \$1.4 billion. Online sales rose 81%, driving the overall increase in revenue.

Ace held their first-ever in-store scavenger hunt from November 17 through the close of Small Business Saturday, the day after Black Friday. Consumers went to Ace stores to take photos of an item from The Grommet and share the photo on Twitter or Facebook. The social share entered consumers into the national sweepstakes to win a grand prize from The Grommet at Ace, gift packs with a selection of the Grommet at Ace best sellers and Ace Hardware gift cards. In addition, to celebrate Ace's 95th birthday and embrace the spirit of giving, Ace donated 95 cents to the Children's Miracle Network Hospitals for every eligible sweepstakes entry.

True Value

True Value ranked number one on *Newsweek's* 2020 list of America's Best Customer Service Brands in the Home Improvement Stores category. Winners were selected based on an independent survey of more than 20,000 US customers who have either made purchases, used services or gathered information about products or services in the past three years. Customers were asked whether they would recommend brands to friends or family, and also asked to evaluate based on quality of communication, professional competence, range of services, customer focus and accessibility. A total of more than 115,000 evaluations were collected about retailers and service providers in 160 categories.

Amazon

Amazon is expanding their in-store pick-up service, called Counter. Counter was first introduced in the United Kingdom and Italy in spring and then brought to the US in June. Since then Counter has expanded to Kohl's stores, Stein Mart discount department stores and Rite Aid. Now Amazon is adding GNC, Health Mart and Stage Stores.

The long-time Amazon exec who oversaw their expansion into retail stores and was the driving force behind the Kindle e-reader resigned in November to focus on community service and not-for-profit work. Steve Kessel has been with Amazon for 20 years; an Amazon spokesperson described Steve as a “customer-obsessed leader who has helped build some of Amazon’s most innovative businesses.”

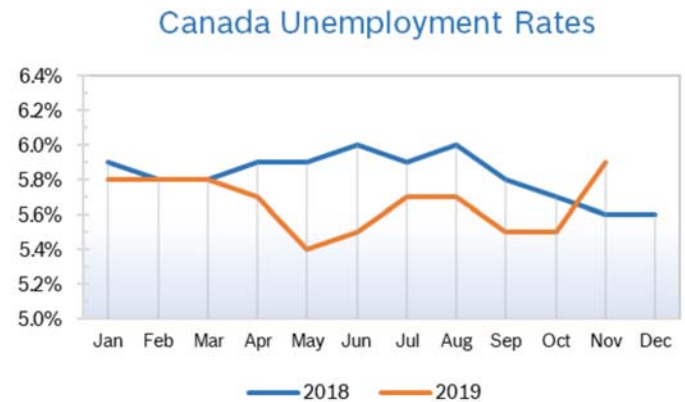
Amazon will invest more than \$40 million to construct a robotics innovation hub in Westborough, Massachusetts. The 350,000-square-foot facility will feature corporate offices, research and development labs and manufacturing space and generate 200 full-time jobs.

Merchants who sell their products on Amazon’s third-party marketplace can no longer use the US Postal Service’s Priority Mail one-to three-day delivery service unless they purchase the postage from Amazon. According to consultants, the move is part of Amazon’s effort to get merchants to use their Fulfillment by Amazon network, in which Amazon manages customers’ supply chains for a fee. The self-fulfillment service, Seller Fulfilled Prime, allows merchants to choose their own logistics partners and retain their Prime Merchant status as long as they hit one-to two-day delivery targets 98.5% of the times.

Amazon lost a \$10 billion technology contract with the Department of Defense (DOD) to Microsoft in a contest that many analysts said was influenced by President Donald Trump’s criticism of Amazon. The contract has wide ranging implications as it is central to the Pentagon’s efforts to modernize technology, and Amazon had been considered the front-runner, partially because they built cloud services for the CIA. Amazon challenges the award and has filed a lawsuit against the DOD in federal court.

CANADA SNAPSHOT

Unemployment Rises to 5.9%



- ▶ Canada’s unemployment rate rose to 5.9% in November holding at a four-decade low of 5.5% in October and employment fell by 71,000 jobs.
- ▶ Since last November the economy has added 293,000 new jobs, an increase of 1.6%. Most job gains have been in full-time employment.
- ▶ Employment in November dropped in Quebec, Alberta and British Columbia but was little changed in other provinces.

Consumer Confidence Falls to 109.2

The Index of consumer confidence fell 2.2 points in October to 109.2, its lowest level since the end of 2018, 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

The Consumer Price Index (CPI) rose 1.9% year over year in October, matching the increase for both August and September, according to Statistics Canada. Excluding gasoline, the index was up 2.3% year over year after three consecutive months of 2.4% increases. On a seasonally adjusted annual basis the index rose 0.3% in October after edging down 0.1%

in September and August. The upward pressure on consumer prices is not great enough to spur the BoC to consider an increase in interest rates, although the BoC did not cut rates at the end of October as many had predicted. The eight components of the CPI were mixed in October, with some rising and some falling.

GDP Rises 0.1%

Canadian GDP rose 0.1% in September after rising by the same percentage in August, according to Statistics Canada. There were gains in 13 of 20 industrial sectors, with increases in wholesale trade and construction offset in part by lower activity in rail transportation. The construction sector was up 0.6% in September with increases in all of its subsectors. Residential construction rose 1.0%, fully offsetting the declines of the previous two months, as growth in home alterations and improvements along with multiunit dwellings construction more than offset lower construction of single, double and row-housing units. Non-residential construction grew 0.5%, led by an increase in industrial and commercial construction. Repair construction increased 0.5%, while engineering and other construction was up 0.2%. For the third quarter, construction was up 1.8%, the largest quarterly gain since the fourth quarter of 2017, with growth in all types of construction. Residential construction was up 1.7% from increases in single, double and apartment-type dwellings. Non-residential construction rose 1.3% as activity in commercial and public sectors construction increased. Repair construction was up 0.4%. The manufacturing sector contracted 0.2% in September, the third decrease in four months, as growth of 0.3% in durable manufacturing was offset by a 0.7% decline in non-durable manufacturing. Retail trade was unchanged in September.

GDP Forecast

The Bank of Canada (BoC) forecasts that real GDP will grow by 1.5% in 2019, 1.7% in 2020 and 1.8% in 2021. Measures of inflation are all around 2%, with CPI inflation dipping temporarily in 2020 as the effects of a spike in energy prices fade.

Housing and Construction News

Housing starts fell to 201,973 units in October compared to 221,135 in September, below economists expectations. The decline came as the pace of urban starts dropped 9%. Within urban starts, single-detached homes rose 2.4% to 49,786 units.

Canada's home sales held steady in October compared to September and were up 12.9% from October 2018, according to the Canadian Real Estate Association (CREA). Home sales were almost 20% above the six-year low reached in February of this year but are still 7% below highs reached in 2016 and 2017 before mortgage regulations were tightened. Inventory was at a 4.4-months' supply, the lowest level since April 2017.

Retail Sales

Retail sales edged down 0.1% in September to \$51.6 billion after sales for August were revised upwards. Excluding motor vehicles and gas, sales rose 0.7%. Sales overall were up 0.5% for the third quarter after being up 1.1% in the second quarter. Sales at building material and garden equipment and supplies dealers rose 3.3%. Sales were up at home centres and building materials stores. Sales were down in seven provinces, but rose in Quebec and Ontario. On a year-over-year basis, retail e-commerce sales were \$1.9 billion, accounting for 3.6% of total retail trade. Ecommerce sales were up 34.6% year over year, while total unadjusted retail sales were up 0.7%.

Retail Notes

Home improvement retail sales totaled \$50 billion in Canada last year, according to Hardlines Information Group, which expects sales to grow 3.2% this year and 4% in 2020.

Lowe's announced that disappointing Q3 results in Canada will result in a reorganization of their corporate support structure across Canada. They plan to migrate Canada to the IT platform used in the US

Lowe's is committed to the Canadian market and will be taking decisive action to eliminate inefficiencies and unnecessary technology duplication, improve customer service and make their Canadian operations profitable.

Lowe's is closing 34 stores across six provinces and cutting jobs in Canada. Quebec, the birthplace of Rona, will see

the most closures, with 12 Rona and Reno-Depot outlets expected to close early next year. Lowe's currently operates about 600 corporate and independent affiliate-dealer stores in Canada, including Lowe's, Rona, Reno-Depot, ACE Canada and Dick's Lumber. CEO Marvin Ellison blamed the company's complex operating structure in Canada and says they are trying to simplify things so they can optimize costs.

The *Globe and Mail* recently questioned whether Lowe's was repeating Target's mistakes in Canada. The *Globe and Mail* says Lowe's is eroding an iconic brand that took nearly 80 years to build. The newspaper went on to say that Target entered the Canadian market with a poor understanding of the cultural differences and competitive dynamics, and Lowe's seems to be repeating many of the same mistakes in Quebec, where Rona had a very loyal and devoted customer base. One of the reasons that made Rona a target for acquisition was their inability to maintain that brand loyalty as they attempted to expand across Canada.

Rona was ordered to stop promoting their stores as "Truly Canadian" and "Proudly Canadian." Complaints to regulators stated that Rona was owned by a US corporation (Lowe's) and that the chain is therefore not "Truly Canadian." Rona was founded in Quebec in 1939 and acquired by Lowe's in 2016.

Amazon will be the top shopping destination for 60% of Canadian consumers, the same percentage who plan to research purchases on the Amazon website. Just 14% of consumers trust influencers and only 6% trust celebrity endorsements, while 72% trust family recommendations and 79% trust the recommendations of friends. Boxing Day/Week in Canada may be losing appeal with only one in three consumers planning to shop these sales.

Canadian Tire plans to cut more than \$200 million in annual costs by 2022 despite solid third quarter revenue of \$3.64 billion, up from \$3.63 billion a year ago. Comp sales rose 2.4% at Canadian Tire stores, but revenue from the retail segment overall fell 0.4%. Canadian Tire is working to build their online business, but said that distribution, fulfilment and shipping costs in Canada are high and they need to look at ways to build scale in order to make online sales more profitable.

MARKET TRENDS

Construction Spending Growth Forecast

In 2019, the total annualized value of construction work in the US was approximately \$1.3 trillion and the industry employed nearly 6 million workers in 2018. Construction employment fell from a peak of 9.8 million in July 2007 to 6.7 million in April 2012. As of August 2019 there were 8.4 million construction workers in the US, with about 23% of them being self-employed. Since bottoming out in 2011, construction spending has increased 64%, with residential construction spending rising 42%.

US construction expenditures will grow 4.3% annually in nominal terms through 2023, according to a report recently released by Freedonia Focus Reports. They predict contractors will gain from continued household formation and gains in consumers' incomes, as well as growing business, nonprofit and government investment. Residential building construction is projected to remain the largest segment, but the fastest growth rate is forecast to be nonbuilding construction, which is expected to rise 4.9% yearly to 2023. Spending in the South and West is expected to slightly outpace the Midwest and Northeast due to faster population and GDP growth.

Construction starts were down 5% during the first eight months of 2019 compared to the same period in 2018, according to Dodge Data & Analytics. The decline was due to a drop in both residential and non-residential building; non-building construction rose 3% over the same period. Dodge reports that residential construction is 8% lower compared to the same period in 2018, with affordability and lack of supply of starter homes hampering the purchasing side, although residential activity picked up during the fourth quarter. Flattening vacancy rates have caused rental developers to hit the brakes, especially in larger metropolitan areas. Non-residential work declined 7% overall, but commercial building starts rose 3%, due to a rise in office, warehouse and parking lot construction. IHSMarkit says that softwood lumber will drop 10.4% for 2019, but predicts a 3.3% increase in 2020 followed by two consecutive years of 1.9% increases. Steel prices are expected to drop 1.2% next year. Cement prices are expected to rise 2.8% in 2020 and 2021 and 3.1% in 2022.

We are in the last phases of a growth cycle, according to the latest ENR Construction Industry Confidence Survey. Of the 239 executives from large construction and design firms who responded, 12% believe the market will begin declining in the next three to six months. However, 37% believe the contraction will not start for 12 to 18 months.

The Amazon Supply Chain Effect

What supply chain experts term “The Amazon Effect” is reshaping standards and determining customer expectations for shipping and fulfilment, according to a recent article in *Sourcing Journal*. A recent survey from consultants AlixPartners finds that the maximum acceptable time to wait for a package is now four days, down from 5.5 days just six years ago. Amazon’s recent move to one-day shipping for Prime customers will ramp up expectations even more. The Amazon effect is also impacting business channels, with customers expecting faster turnaround for samples, fabric choices and shipping in general. Companies at all stages of the supply chain are being pushed to develop new strategies that balance the desire for speed with the realities of business and maintain quality and ethical standards. Many suppliers are becoming drop shippers as they partner with their customers to try and keep up with expectations.

Happy Birthday Internet

The first digital transmission between two computers was October 29, 1969, and occurred when a UCLA computer science professor and a graduate student sent the first digital transmission from their computer to another one at the Stanford Research Institute. The system crashed after receiving the first two letters of the message, but it was still the actual beginning of the internet.

Internet Sector Contributes \$2.1 Trillion to US Economy

The internet sector accounted for about 10% of the nation’s GDP in 2018, according to Reuters, as reported by Trend News Agency, up from 6.9% in 2017. The internet sector is responsible for about 6 million direct jobs with average compensation of \$132,223 compared to \$68,506 in the total US economy. Manufacturing contributed about \$2.3 trillion to GDP.

Robots or No Robots?

Walmart and Target are taking different approaches to adding robots to their stores. The direction these two retail giants take will help shape the future of automation in retail. Both companies are testing robots in their warehouses.

Walmart is planning to add robots to do repetitive manual tasks. They will be adding self-driving robots that scrub floors to 1,860 of their more than 4,700 US stores by February 2020. They will also add robots that scan shelf inventory to 350 stores and robots that automatically scan boxes as they come off delivery trucks and sort them by department onto conveyor belts to 1,700 stores. Walmart says adding robots will help them increase worker productivity, reduce the amount of time people spend on manual tasks and redirect efforts to sales and other customer service roles.

Target, with 1,850 US stores, says they will not bring in the type of robots Walmart is deploying. CEO Brian Cornell says they believe that even in today’s environment, the human touch still really matters. Carl Benedikt Frey, a fellow at Oxford and author of *The Technology Trap: Capital, Labor and Power in the Age of Automation*, says that it makes less economic sense for Target to invest in robots than it makes for Walmart, because Target has 360,000 US workers compared to Walmart, the country’s largest private employer, with 1.5 million US associates, and smaller stores, with more than 80% of Target stores under 170,000 square feet.

Industry analysts note that there are more than 15 million retail workers in America today, and lower-skilled jobs such as cashiers and clerks are among those most vulnerable to technology advances. Reportedly between 6 million and 7.5 million existing retail jobs could be handed over to robots.

Active Shooter Training for Retailers

Target is expanding their active-shooter training for hundreds of thousands of employees across the US, according to Business Insider. The training was initially conducted among select leaders and security workers at Target stores but was expanded to include all stores, distribution centers and headquarters employees in August. The decision to expand training was reportedly made just days after a mass shooting in an El Paso, Texas Walmart. Walmart offers active shooter training during orientation and on a quarterly basis thereafter for more than one million employees.