

Market Briefing

Content

US Economy	2
Housing & Construction	4
Power Tool Industry	5
Retail	8
Canada Snapshot	13
Market Trends	15

US ECONOMY

- Consumer Spending Rises 0.5%
- Consumer Prices Unchanged
- Consumer Confidence Falls to 96.1
- Unemployment Drops to 6.7%
- Chicago PMI Falls to 58.2
- Wholesale Prices Rise 0.3%
- Q3 GDP Unrevised at 33.1%

HOUSING & CONSTRUCTION

- Builder Confidence Rises to 90
- Building Permits Unchanged
 - ▶ Single-family permits rise 0.6%
- Housing Starts Rise 4.9%
 - ▶ Single-family starts rise 6.4%
- New-Home Sales Fall 0.3%
- Existing Home Sales Rise 4.3%
- Regional Housing Stats
- Mortgage Rates Fall to 2.7%

POWER TOOL INDUSTRY

Robert Bosch Tool Corporation

- ▶ Introduces RefinemySite

Stanley Black & Decker

- ▶ Robert Baird Global Industrial conference
- ▶ Morgan Stanley “Life After Covid” conference
- ▶ Possible tariff changes
- ▶ Tests new vocational leadership program
- ▶ Named to World Sustainability Index

Trimble

- ▶ Q3 revenues rise 1.0%

RETAIL

Retail Sales Rise 0.3%

The Home Depot

- ▶ Q3 sales rise 23%; comp sales rise 24% overall and 25% in US
- ▶ Conference call with analysts
- ▶ CIO Interview

Lowe’s

- ▶ Q3 sales rise 29%; comp sales rise 30.1%
- ▶ New bulk distribution center
- ▶ Looking to sublet corporate space

Walmart

- ▶ Q3 sales rise 5.2%; US comp sales rise 6.4%
- ▶ Holiday sales and procedures
- ▶ Pop-up ecommerce center
- ▶ Launches WM Pet Care

Ace Hardware

- ▶ Q3 revenue rises 30.7%; US comps rise 28.9%

- ▶ Holiday lights promo
- ▶ Named Top Workplace

Amazon

- ▶ Expands in-garage delivery test
- ▶ Charged by European Commission
- ▶ 51% increase in ad revenues
- ▶ Opens online pharmacy

CANADA SNAPSHOT

Economy

Housing & Construction

Retail

MARKET TRENDS

What Shape Recovery?

Vaccines Bring Hope for the New Year

2021 Housing & Construction Trends

Holiday Forecasts and Strategies

Mask Mandates Increase Consumer Spending

How Retailers Deliver So Fast

Pandemic Panic Buying Returns

How Brands Connect

Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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US ECONOMY

Exchange Rates November 30, 2020

Euro	1 Euro = \$1.195	\$1.00 = 0.837 Euros
Canadian Dollar	1 CAD = \$0.770	\$1.00 = 1.298 CAD
Japanese Yen	1 Yen = \$0.010	\$1.00 = 104.377 Yen
Chinese Yuan	1 Yuan = \$0.152	\$1.00 = 6.580 Yuan
Mexican Peso	1 Peso = \$0.050	\$1.00 = 20.153 Pesos

Market Watch November 30, 2020

DOW	26,502	11.8%
NASDAQ	10,912	11.8%
S&P 500	3,270	10.8%

Markets soared in November despite a record surge in CV19 cases in the US and worldwide, cheered by the results of the presidential election and the news that viable vaccines are on the way. Even with a sell-off on the last business day as traders booked profits from historically strong gains, the DOW had its best month since January 1987 and the NASDAQ and S&P 500 recorded their best months since April. Analysts noted that December could be bumpy, but the mid-range outlook is encouraging.

Consumer Spending Rises 0.5%

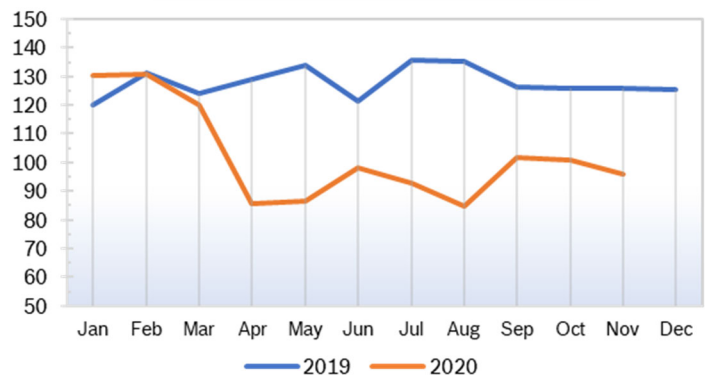
Consumer spending rose 0.5% in October after rising a downwardly revised 1.2% in September. It was the smallest increase in consumer spending since April. With new CV19 cases accelerating in much of the country, many states are adopting new restrictions and analysts warn that consumer spending could slow down even more given that many government support programs have ended and Congress was unable to reach agreement on a new stimulus package. While consumers cut back spending on restaurants and travel, they spent more on automobiles, appliances and building supplies for home projects. Consumers' incomes from all sources fell 0.7%. Consumer spending accounts for 70% of US economic activity.

Consumer Prices Unchanged

The Consumer Price Index (CPI) was flat in October after rising 0.2% in September and 0.4% in August. The CPI was up 1.2% year over year after being up 1.4% in September. Excluding the volatile food and energy components, core prices were also unchanged after rising in the previous two months. In the 12 months through October, the core PCE price index rose 1.6% after being up 1.4% in September. Shelter prices rose just 0.1% for the third consecutive month, with rental prices trending down. Shelter accounts for 42% of the core CPI, which should keep a lid on overall price growth. Wells Fargo expects inflation to increase, but remain below the pre-pandemic trend for quite some time.

Consumer Confidence Slips to 96.1

Consumer Confidence Index

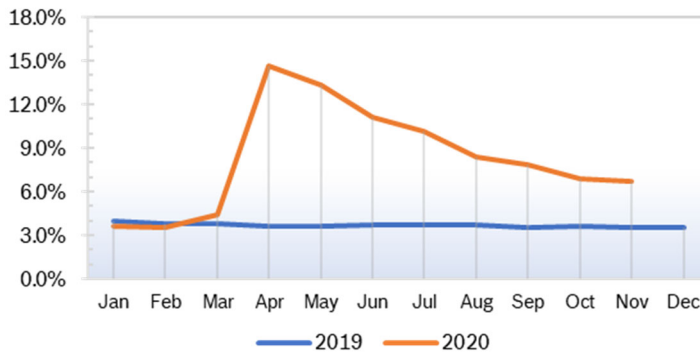


- ▶ The New York-based Conference Board's Consumer Confidence Index fell to 96.1 in November after slipping to an upwardly revised 101.4 in October.
- ▶ The Present Situation Index, which is based on consumers' assessment of current business conditions, rose to 106.2 from an upwardly revised 105.9 in October.
- ▶ Expectations dropped to 89.5 in November after falling to a downwardly revised 98.2 in October.
- ▶ Rising CV19 numbers across the country helped send confidence down to the lowest level since August. The survey was done before the positive news about vaccines.

*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 6.7%

U.S. Unemployment Rates



- ▶ The unemployment rate dropped to 6.7% in November after falling to 6.9% in October and the economy regained just 245,000 jobs after adding back a downwardly revised 610,000 jobs in October.*
- ▶ The job growth figure was well below even the most conservative expectations. Unemployment fell largely because 400,000 people dropped out of the workforce.
- ▶ Thus far the US has recovered 56% of the jobs lost in March and April, and payroll employment is still 9.8 million below pre-pandemic levels.
- ▶ The slowdown in job creation can be traced entirely to the private sector, although layoffs include 93,000 temporary Census workers.
- ▶ The number of Americans on temporary layoffs remains high at 26%.

* 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 September

U.S. job openings rose by 84,000 in September to 6.4 million after declining in August for the first time in four months, according to the latest Job Openings and Labor Turnover Survey (JOLTS) from the US Bureau of Labor Statistics (BLS). The increase was below expectations of 6.5 million. Vacancies still remain below their level of 7 million in February. Total separations, which include quits and layoffs, fell by 25,000 to 4.7 million. Separations increased in the federal government but mostly due to the temporary hiring of 2020 Census workers. The country's quits rate climbed slightly to 2.1% from 2%, while the total

jumped by 179,000 to 3 million. Quits were concentrated in the construction and arts and entertainment industries. Layoffs and discharges fell to 1.3 million from roughly 1.5 million. The rate of layoffs and discharges declined to 0.9% in September from 1% in August. 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 Falls to 58.2

The Chicago Purchasing Managers Index (Chicago PMI) fell to 58.2 in November after slipping to 61.1 in October but remained in positive territory for the fifth consecutive month after spending a full year below 50. New Orders and Production posted the only declines; Supplier Deliveries saw the biggest gain. New Orders fell for the first time since May, dropping by more than five points to its lowest level since August. Prices Paid jumped almost ten points in November to the highest level in more than two years. Two special questions were asked in November. The first was whether the pandemic had affected employee productivity. The majority, 55.4%, reported no change, while 32% saw productivity rise between 1% and 10%. The second question asked whether the results of the presidential election would impact their business forecast; 73% of respondents did not foresee any direct impact on their forecast. The remainder of responses were closely divided between a positive effect and a negative one. Looking 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 Rise 0.3%

The Producer Price Index (PPI) rose 0.3% in October after rising 0.4% in September. The increase was slightly ahead of expectations, and partly due to a jump in food prices. The PPI has risen for four consecutive months. In the 12 months through October the PPI rose 0.5%. Excluding the volatile food, energy and trade services components, producer prices rose 0.1% in October after rising 0.4% in September and was up 1.6% year over year. The uptick in core prices came as prices for final demand services rose by 0.2% in October following a 0.4% increase in September. The wholesale cost of goods increased 0.4%, boosted by a 14.7% increase in the price of iron and scrap. Analysts noted that while pandemic-related price distortions are reversing, the trend in inflation is expected to remain subdued for some time.

Q3 GDP Unrevised at 33.1%

GDP was unrevised at a record annualized rate of 33.1%, according to the second estimate from the Commerce Department. The big increase in GDP was widely anticipated and driven by a 40.7% increase in personal consumption expenditures, which reflects the reopening of the economy. Consumer spending on goods has been much stronger than spending on services, most likely because many services involve close personal contact. Nevertheless, personal spending on services rose a solid 38.4% in Q3 after plummeting 41.8% in Q2. Other areas of strength included business spending on equipment, which jumped 70.1% and easily offset the 35.9% drop in the second quarter. Residential construction soared 59.3%, but nonresidential construction spending fell 14.6%, the fourth consecutive quarterly decline for this spending component. Growth in the fourth quarter is expected to slow sharply, with analysts predicting that GDP will grow at an annualized rate around 6%, assuming that severe CV19 restrictions are not put back in place. Analysts remain concerned that a full business recovery could take longer as the virus resurges and many business sectors remain under pressure.

FOMC Stands Pat

The Fed made no major policy changes when the Open Market Committee (FOMC) met in early November. They maintained the target range for the fed funds rate between 0.00% and 0.25% and kept the Fed's monthly pace of Treasury securities and mortgage-backed securities unchanged at \$80 billion and \$40 billion, respectively. The decision to stand pat was unanimous.

USPS Asks for Rate Increase

The USPS has proposed raising Priority Mail and Priority Mail Express prices the end of January, 2021. The rate increase would impact the postal service's popular flat rate package rates and Priority Mail Express services.

HOUSING & CONSTRUCTION

Builder Confidence Rises to 90

Builder confidence rose five points to a record-setting 90 in November after rising two points in both September and October, according to the National Association of Home Builders/ Wells Fargo Housing Market Index (HMI). It was the first time the index has been above 80 for three consecutive months and the seventh consecutive monthly increase. All the HMI indices posted their highest readings ever in November. The index gauging current sales conditions rose six points to 96, the component measuring sales expectations in the next six months increased one point to 89 and the measure charting traffic of prospective buyers rose three points to 77. **Regional scores all rose** for the sixth consecutive month. Any number over 50 indicates that more builders view the component as good than do as poor.

Building Permits Unchanged

Overall building permits were unchanged in October at a seasonally adjusted annual rate of 1.55 million units. **Single-family permits increased 0.6%** to a 1.12 million unit rate after jumping 7.8% in September. Multifamily permits dropped 1.6% to a 425,000 unit pace. On a year-to-date regional basis, permits were mixed.

Housing Starts Rise 4.9%

Housing starts rose 4.9% in October to a seasonally adjusted annual rate of 1.53 million units in October after rising to 1.42 million units in September. Single-family starts rose 6.4% to a seasonally adjusted annual rate of 1.53 million units after rising to 1.1 million units in September. **Single-family starts were up 8.6%** year to date and remained at the highest level since spring 2007. Limited supplies of lots and building materials are keeping starts from being even higher. Multifamily starts remained stable at an upwardly revised 351,000 units after falling in September. Combined single-family and multifamily regional starts were mixed year to date compared to 2019.

New-Home Sales Fall 0.3%

New-home sales fell 0.3% in October to a seasonally adjusted 999,000 new homes after sales for September were revised

upward by 64,000 units. Over the past four months new-home sales have risen at a faster pace than anytime since 2006. Analysts now expect new-home sales to rise a very strong 23% in 2020. Sales were up 41.5% from October 2019. Year-to-date new-home sales are up 20.6%. Inventory fell to a 3.3 months' supply from a 3.6 months' supply in September, 13.4% below the supply in October 2019. Of the inventory total, just 44,000 homes were completed and ready to occupy. The median sales price rose to \$330,600 in October from \$326,800 in September and \$322,400 a year ago. NAHB noted that while demand was strong, increases in the price of lumber and other materials are driving up prices. **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 Rise 4.3%

Existing home sales rose 4.3% in October to a seasonally adjusted annual rate of 6.85 million after rising to 6.54 million in September. Existing home sales were up 26.6% from October 2019. The median existing-home price for all housing types in October rose to \$313, 000 after rising to \$311,800 in September and was up 16% from October 2019, as prices rose in every region. October's national price increase marks 104 straight months of year-over-year gains. Total housing inventory at the end of October dropped to 1.42 million units, down from September and down from October 2019. Unsold inventory fell to a record-low 2.5-months' supply from 2.7 months in September and was down from a 3.9 months' supply in October 2019. Properties move very quickly; 72% of homes were on the market for less than a month. **Sales rose month over month and year over year in every region** for the fifth consecutive month.

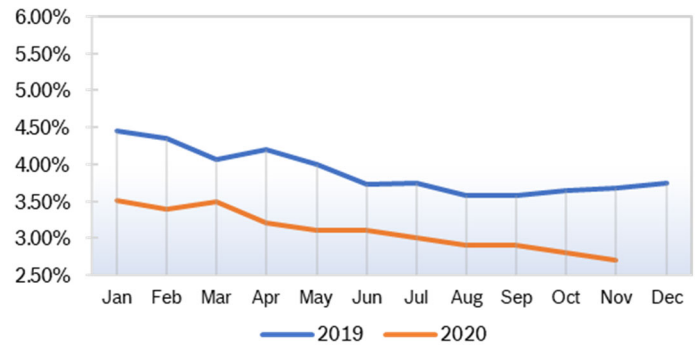
Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence*	83 (+2)	82 (+3)	80 (+6)	94 (+4)
Building Permits YTD	-3.9%	+5.5%	+5.6%	+0.1%
Housing Starts Y/Y	-6.4%	+7.5%	+15.5%	+4.7%
New Home Sales	+29.9%	+18.5%	+29.8%	+20.1%
Existing Home Sales*	+4.7%	+3.2%	+8.6%	+1.4%

* Year over Year

Mortgage Rates Fall to 2.7%

30-Year Fixed-Rate Mortgage



- ▶ A 30-year fixed-rate mortgage (FRM) fell slightly to 2.7% at the end of November from 2.8% at the end of October. Mortgage rates were at 3.7% at the end of October 2019.
- ▶ Freddie Mac notes that historic low rates are fueling housing demand and expects rates to remain low through the remainder of the year, although falling inventory and higher home prices could stifle demand.
- ▶ 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

Robert Bosch Power Tools

RBPT introduced RefinemySite, a digital construction site platform that allows teams to plan, communicate and document jobsite changes in real time. The easy to use cloud-based software utilizes the Lean Construction Institute's (LCI) Last Planner System. Lean management principles improve productivity by empowering team members to optimize processes and eliminate inefficiencies, and makes the type of information that has traditionally ended up on sticky notes and whiteboards easily accessible via the cloud on computers and smart devices that can be accessed by all team members in real time from any location.



Stanley Black & Decker

Robert Baird Global Industrial Conference:

They have been experiencing consistent trends that confirm their estimates of 11% organic growth for Tools & Storage during the fourth quarter. US markets continue to be strong.

They are not seeing the same type of restocking impact that they saw during the third quarter. The industrial side of Tools & Storage is lagging behind.

They feel the cost reductions they implemented have given them about a \$125 million “positive tailwind” for 2021. Currency has been stable and there is only minor inflation in commodities.

They don’t expect a change in the China tariffs with the new Biden administration, but if there is a change, they expect it to be a positive one.

They think they will be in an environment of renewed consumer activity based around the home at least through next summer. Based on comps to the first and second quarters of this year, they expect robust growth rates for Tools & Storage for the first half of 2021. Back-half comps will be more difficult to exceed, because of the 10% to 11% growth they expect this year. Overall, they believe their businesses are positioned to grow mid-single digits in 2021.

They now believe the Craftsman brand has the potential to be a \$2 billion to \$3 billion brand on an annual basis, much more than the \$1 billion in annual revenue that was their original goal. It will take time to reach that goal, but they have many products that will start to roll out in 2021 and 2022.

Right now they are going to focus on the potential to grow Craftsman in the US with partners Lowe’s and Amazon, but going forward they will be investigating whether the brand could resonate in other markets such as the U.K. or Australia.

They believe Black & Decker has the potential to be an amazing global ecommerce brand that could go well beyond tools and do well in many countries over time. They think B&D will be primarily a DIY and possibly a tradesman brand in certain countries, including the U.K. With Jeff Ansell now leading their

efforts for B&D, they have tremendous confidence in the brand over the long term.

All of their domestic manufacturing facilities are now producing above pre-pandemic levels, as are all their global facilities. In almost every category they are currently running at max capacity, and they expect that to continue for the next six months to a year.

They will execute their option to purchase the remainder of MTD next summer, and perhaps close on the transaction in October.

Morgan Stanley’s “Life After Covid” Conference:

This conference was for Morgan Stanley clients and employees, and was referred to as the work-from-home track; it was not open to the press. SB&D was represented by Frank Mannarino, the president of the Power Tools Group, and Allison Nicolaidis, the president of the Hand Tools & Storage group.

Mannarino said that they are seeing more and more end users doing projects either at home or on job sites and are seeing sustained, really strong demand.

Some of the key categories where they’re seeing strong demand for power tools include all the woodworking categories, including sanders, jigsaws, circular saws, miter saws and table saws, which are purchased both by pros and some homeowners. They are seeing strong demand across both the DeWalt and Craftsman brands.

In Craftsman, they are seeing more end users going into the Craftsman V20 cordless system, and now have about 4 million battery packs in the field.

In their Black & Decker home products business, which is cleaning tools, they are seeing very strong demand for dust busters, steam mops and stick vacs, all in line with America’s new obsession with cleaning.

Nicolaidis covered outdoor, hand tools and storage and some power tool accessories, which she called an exciting category during the pandemic. Users range from typical do-it-yourselfers to a category she described as “ambitious enthusiasts” who spend a lot of money on outdoor power equipment,

even though they are not professionals to Pros.

Some very traditional hand tool categories really took off for them in April and demand has stayed very high. Products include clamps, sawhorses and traditional handsaws. They also saw items like picture hanging tools and stud sensors, which are clearly DIY products, accelerate.

Power tool accessories performed at the “top of the heap” of all categories, including drill bits, saw blades, grinding wheels, etc. People bought new tools with accessories and bought new accessories for the tools they already owned.

They believe they have accelerated between three and five years of share shift from traditional brick and mortar to e-commerce simply because people are shopping from home.

They are very focused on ensuring they are servicing demand, making sure they have a phenomenal holiday season, with brick and mortar and online retailers building inventory to make it through the high sell-through anticipated in the fourth quarter.

In normal years they typically see volume slow down as they exit one year and move into the next, and they take plants down and liquidate a lot of inventory off their balance sheet. This year they are going to continue to run plants in order to gear up for the big spring selling season and Father’s Day.

Typically much of the process they go through related to promotion with their partners and distribution happens 9 to 12 months before anything hits the stores. The pandemic was an element of surprise in the middle of a promotional period. In the beginning everyone was very unsure whether there would even be a promotional period, or what the holidays would look like.

Their 12-volt XTREME platform and 20-volt ATOMIC platform have been very strong growth drivers and they will continue to build them out as they move into 2021. Dustbusters and other cleaning items not normally seen as big gift items are flying off the shelves.

They just launched the DeWalt ToughSystem 2.0 professional storage system, which consists of boxes that bolt together and also bolt to a cart that can be rolled on and off the jobsite. They are seeing great adaption from Pros.

They are also very focused on using technology to create longer product life and faster speeds for users.

Within their power tool business, the breakout of Pro to DIY is about 70-30. They have seen strong demand in DIY and a bounce back in the Pro business. They never saw a significant drop off in the residential professional market.

Drills and impact drivers are typically the entry ways into their platforms, because they are the key tools used for drilling holes and driving screws. Therefore, they know they have to have really good drills and impact drivers.

The plant they are currently building in Dallas to support the Craftsman business and a few other professional brands and mechanical tools is the biggest project they have going on now. Putting in the best and newest equipment and processes is much more efficient than retrofitting existing plants.

Other News:

CFO Don Allan told the *Hartford Courant* that they see some relief but no big changes in tariffs in a Biden presidency. He said that if tariffs eased it could benefit the company to the tune of hundreds of millions of dollars and be a very significant positive. Right now the total cost of tariffs to the company is about \$300 million on an annual basis. Price increases, moving production and other actions have helped offset the impact, but mitigation will take about three years. President-elect Biden has not yet detailed his plans, but said during his campaign that he would work with European and other allies to pressure China to change its behavior. President Trump’s tariffs were part of his “America First” economic policy to pursue bilateral trade agreements rather than free trade agreements negotiated by groups of nations, which he felt put America at a disadvantage.

SB&D has been pilot testing a new vocational leadership program (VLP). It’s a twelve-month training program to support workforce-enabled jobs, such as milling and tool shop operators, maintenance techs, and materials and manufacturing-focused positions. There are reportedly 20 million jobs currently open in manufacturing. Recruits to the program must be nominated and could be current employees, high school and college grads who are interested in the trades or others who will familiarize themselves with the concept known as Six Sigma, a set of techniques and tools used to improve business processes and

practices. Learning is labor-intensive and requires a robust training schedule over a twelve-month period.

SB&D was named to the World Sustainability Index for the third consecutive year and the North America Index for the tenth consecutive year. SB&D's Social Responsibility Strategy includes creating a more sustainable world. The Dow Jones Sustainability World Index recognizes the top 10% of companies within each industry globally, while the top 20% of companies in the US and Canada are included in the North America Index.

Trimble

Trimble reported Q3 revenue rose 1.0% to \$792.1 million, with North American revenue dropping 5% to \$415 million. Trimble stated that their financial results for the remainder of 2020 will be impacted by continued global economic uncertainty due to the CV19 pandemic. Therefore, Trimble did not provide a financial outlook for the fourth quarter of 2020.

RETAIL

Retail Sales Rise 0.3%

Retail sales inched up 0.3% in October after rising a downwardly revised 1.6% in September and were up 5.7% from October 2019. Although the pace of sales was below expectations and well below September's surge, it was the sixth consecutive monthly increase in retail sales. Core retail sales, which exclude automobiles, gasoline and sales at building and supply stores and food services and factor into calculations for GDP, inched up 0.1% in November after rising a downwardly revised 0.9% in October. Online and other non-store sales were up 3.1% from September and 26.3% year over year.

Holiday Sales Break Records

Holiday sales over the long Thanksgiving weekend broke online sales records on both Black Friday and Cyber Monday, with Black Friday online sales of \$9 billion and Cyber Monday online sales coming in at nearly \$13 billion. Brick and mortar stores saw foot traffic on Black Friday drop about 48%, but in-store sales only fell about 30%, according to retail analytics firm RetailNext, which noted that shoppers that did venture out

were very intent on purchasing as much as possible. Analysts say sales overall reflect the fact that consumers began shopping much earlier in the season, and retailers actively attempted to avoid using very limited time promotions to draw big crowds.

The Home Depot

Q3 sales rose 23% to \$33.54 billion, exceeding analysts' expectations. **Comp sales rose 25% in the US and 24%** year over year in all markets. The number of customer transactions rose 13% from Q3 2019 and average ticket rose to \$72.98. Sales per square foot increased more than \$100 to \$552.85.

Conference Call with Analysts:

Comp average ticket increased 10%, with all of their top 40 markets posting double-digit comps, and Canada posting comps above the company average. Visits, app use, app downloads and mobile use have all risen dramatically.

They saw strong double-digit growth from both Pro and DIY customers. Growth with smaller Pros has been consistent in the double-digits and growth with large Pros has been healthy and has grown from Q2 even through some large Pros are suffering because customers are not comfortable letting people into their homes. Big ticket comp transactions of more than \$1,000 were up 23%.

DIY customers are gaining confidence in their abilities and tackling more projects. A variety of categories posted comps well above average, including power tools. They are featuring several exclusive power tool assortments in their gift centers.

They've adjusted their Black Friday events this year to cover an extended period of time and reorganized how they are staging their gift centers to assist with social distancing.

All the actions they have taken across the supply chain and in partnership with their suppliers have enabled them to improve in-stock levels, reduce lead times, better manage in-store replenishment and improve fulfillment options and delivery times.

Sales using their digital platforms are up approximately 80% compared to Q3 last year and they have had record-level web traffic for more than six months. Approximately 60% of

online orders are fulfilled through a store. Their online business grew nearly \$2 billion in the quarter.

They have used their online platform to showcase assortments for events, and their Halloween event produced the strongest customer response they've had. They are expecting holiday to perform very well also as people look for some sort of normalcy.

They will continue to focus on taking care of their people, extending weekly bonuses for hourly associates in stores and distribution centers for the full third quarter.

They have decided to give all the frontline hourly associates permanent increases instead of temporary weekly bonuses.

They implemented mechanized floor loading in two-thirds of their rapid deployment centers, which has helped reduce lead time, improved in-stock positions and improved productivity.

Merchandise inventories were up \$444 million to \$16.2 billion and inventory turns were 5.9x, up from 5x in Q3 2019.

Customers tell them their homes have never been more important to them, and they intend to continue to invest in them. Continued growth in household formation, appreciating home prices and low inventory are all creating very strong housing metrics.

They are finishing the investment in the new look and feel for their stores, and the signage packages will be in all US stores this year. It will be the first time the brand standard across all the US stores has been the same since they opened in 1979.

They are trying to position THD to grow faster than the market on a consistent basis no matter what the operating environment is.

They plan inventory week to week and release orders every day. About 70% of what they purchase is domestic goods with short lead times. In stocks are still not where they would like them to be but they are much better than when the pandemic hit.

THD agreed to buy HD Supply Holdings for about \$8.7 billion, bringing the wholesale distributor of electrical, plumbing, janitorial and other supplies back under the Home Depot banner. THD sold HDS in 2007 to a coalition spearheaded by Bain Capital for about \$8.4 billion. CEO Craig Menear noted that the MRO customer is an important Pro customer for THD, and the success they have had with their existing MRO business makes them confident that they can grow share in the highly fragmented \$55 billion MRO market.

HD Supply has about 44 distribution centers in the US and Canada and reported sales of nearly \$6 billion in the latest fiscal year, although about half of that revenue came from the White Cap construction unit that was sold to Clayton Dubilier for \$2.9 billion in cash.

HD Supply competes with W.W. Grainger, Fastenal and HD's own Pro business. Analysts say the deal will accelerate Home Depot's initiatives to serve professional customers, broaden their ability to provide job-site delivery and help them penetrate the under-served MRO market.

Other News:

The pandemic pushed THD into rapidly developing services that allowed customers to safely shop in stores, according to Matt Carey, THD's CIO, who did an in-depth interview with *The Wall Street Journal*.

According to Carey, they went to crowd-limiting very early and had an app deployed within 24 hours that allowed associates to control the crowds coming in and out of the store. Over the ensuing months they got an immense amount of customer feedback related to the digital capabilities they offer. As an example, curbside pickup started out as a very manual process; associates actually made homemade signs that said "Curbside Pickup, Park Here" and met people in the parking lot. Curbside is now fully embedded in their app; customers can opt-in to location alerts that will automatically notify the store that they are there to pick up their order.

They are seeing that many of the customers who were "forced" into trying to fix something themselves by the pandemic quickly developed confidence in their abilities and subsequently took on increasingly complex and ambitious projects. THD now has an image search function on their app that allows users to take a photo of their project and find what they

need. They have also added voice search, product reviews and insights from other customers and an in-store product locator that will take shoppers to the exact aisle and bay that has what they're looking for.

THD reached a \$17.5 million settlement to resolve a multi-state probe into a 2014 data breach that allowed hackers to access payment card data belonging to 40 million customers. The settlement with 46 US states and Washington DC involved hackers using a vendor's user name and password to infiltrate Home Depot's network and deploy custom-built malware. THD noted that security is a top priority and that since 2014 they have invested heavily to further secure their systems.

Lowe's

Q3 sales rose 29% to \$22.4 billion and comp sales rose 30.1%, besting analysts' expectations for sales, but falling short of expectations for earnings.

Conference Call with Analysts:

There was consistent growth across all channels and geographies. Growth exceeded 15% across all merchandising departments, 20% across all geographic regions and triple digits on lowes.com. Overall sales on the website grew 106%, with online business representing 7% of sales overall.

DIY comps outpaced Pro comps, with consumers focused on redesigning the functionality of their homes and many still reluctant to allow Pros to work inside. Customers are focused on creating a home office, home school and home center for recreation and entertainment.

The Pro business remained strong with comps exceeding 20%. They are seeing a significant number of new Pro customers, with good repeat purchases.

They launched a significant merchandising investment in the third quarter to reset the footprint of their US stores, shifting to a project-focused layout versus a product-focused layout. They believe the changes will create a more intuitive shopping experience for customers, especially Pros.

They continue to see strong sales trends in urban areas, with comp sales in urban markets outperforming remote or rural

markets by more than 500 basis points.

Customers were actively engaged in outdoor projects over the quarter, and they continued to strengthen their position as the number one destination for outdoor power equipment.

The have been rapidly enhancing their website since re-platforming it to the cloud. They are working to deliver a better customer experience, including enhanced delivery scheduling, easier shopping over product collections and the ability to ship products like lithium batteries that require special handling.

They are adding a Pro flex area, making it easier for Pros to grab and go. Secondly, they are moving the cleaning category to the main or first aisle in the stores.

They are eliminating all bays without planograms so they can open up areas to higher velocity displays.

Their first-ever drive through curbside trick or treat event at the stores was a huge success. They gave away candy and pumpkins to hundreds of thousands of families who did not have the usual ways to celebrate Halloween.

They feel customers will be spending much more time at home over the holidays and they plan to deliver a season of savings over an extended period to avoid creating congestion in their stores.

Their recent annual associate survey showed that associates feel supported by the company during this challenging year and that they are energized by their work. They are bringing on 20,000 associates across US stores and distribution centers for the holidays to support elevated customer demand.

They have begun adding touchless buy online pick up in store (BOPUS) lockers to their stores to complement curbside pick-up and pick-up at checkouts. They focused on rolling out these touchless lockers by Thanksgiving in major metro markets, along with dedicated fulfillment teams who are already improving speed of service and customers satisfaction.

They are encouraged by the initial results from the tool rental program that uses an online platform to allow people to reserve their tools ahead of time. They are getting strong feedback from both DIYers and Pros for the program, which debuted

in Charlotte in August.

They believe that post-Covid, what they call the “nesting effect” will begin to decline and the Pro business will grow exponentially as people become comfortable again with having others work in their homes. They are investing so heavily in their Pro capabilities now because they know they have an opportunity to grow their Pro business significantly.

They are committed to the core retail business; they will target the MRO segment as part of their current Pro strategy with their outside sales reps.

They probably are investing an incremental \$70 million or so per quarter on costs associated with cleanliness and safety and expect that to continue for quite some time.

They have been experiencing shrink pressure over the past several quarters, and have a good sense of where it originates and the challenges in preventing it. They have been making significant investments from a loss prevention standpoint and are making progress.

They will be doing an in-depth update for investors on December 9 during which they will go over many of their long-term plans.

Other News:

Lowe’s is building a massive bulk distribution center in Alabama that will provide daily shipments of appliances, riding mowers, grills, patio furniture and other bulky items to Lowe’s cross-dock facilities for last-mile delivery to customers. They will also replenish inventory at more than 112 stores in seven states. The 1.2 million-square-foot facility is part of a \$1.7 billion investment Lowe’s is making in their supply chain through 2023.

Lowe’s is interested in subleasing about 100,000 of their 200,728 square feet of office space in Charlotte Plaza. A Lowe’s spokesperson said that the company’s tech team occupied three floors at the Plaza prior to transitioning to remote work this spring.

Walmart

Q3 sales rose 5.2% to \$134.7 billion, beating expectations. **Comp sales in the US rose 6.4%** excluding fuel, well above

expectations. Sam’s Club comp sales rose 11.1%, an indication of how shopping patterns have changed and customers are trying to make fewer trips to the store and buy more when they go.

US ecommerce sales grew 79% with strong results across all channels and helped boost comp sales and profit margins. CEO Doug McMillon said that they’ve accomplished three to five years’ worth of ecommerce growth this year.

McMillon said that the surge in demand for essentials seen at the peak of the coronavirus lockdowns carried into the second half of the year, with consumers relying heavily on Walmart’s same-day delivery and store pick-up services.

While optimistic about holiday sales, McMillon noted that resurging CV19 cases and possible restrictions along with continued expenses related to ensuring worker and customer safety and compensating the workforce may pressure margins.

Walmart is reinforcing safety procedures and has resumed limiting the number of shoppers allowed in stores at one time. They noted that consumers were stocking up again on paper goods, cleaning supplies and dry grocery, and said they would be able to respond in this instance better than it did at the start of the pandemic, but cautioned that the supply chain was “still stressed in some places.”

Walmart is creating pop-up ecommerce distribution centers to fulfill home delivery orders and meet holiday demand. They’re taking space in 42 of their existing regional distribution centers (RDCs) across the US, and expect to ship up to 30% of holiday volume using them. Traditionally, RDCs ship pallets of goods to Walmart stores, but supply chain technology enhancements will allow them to deliver directly to customers.

Walmart launched Walmart Pet Care, a full service, omni-channel business that will include not only goods but services such as pet insurance, dog walking and pet sitting, via partnerships with PetPlan and Rover, and its online pharmacy. Analysts say Walmart’s push to provide more products and services meshes well with consumers’ desires to shop at fewer stores during the pandemic. In addition, it fits in well with Walmart’s focus on high-growth businesses, as the pet care economy has been booming.

W.W. Grainger

Q3 sales rose 2.4% to \$3.0 billion and organic daily sales rose 4.6%, driven by significant share gains in the US segment and strong growth in the endless assortment businesses which more than offset declines in Canada.

US segment sales were up 3.1%, outperforming the MRO market, which declined an estimated 5% to 6%. This increase was driven largely by higher volumes of pandemic-related products, partially offset by year-over-year decreases in non-pandemic product sales. The declines in non-pandemic product sales continued to moderate, while growth in pandemic product sales remained elevated, but began to ease from the levels experienced earlier in the year.

There was no material impact from foreign exchange rates during the 2020 third quarter and the third quarter of 2019 and 2020 had the same number of selling days.

Ace

Q3 revenues rose 30.7% to a record \$2.0 billion and US comp sales rose 28.9%. Acehardware.com revenues soared 221%.

The 28.9% increase in U.S. retail comp store sales reported by the approximately 3,300 Ace retailers who share daily retail sales data was the result of a 12.3% increase in transactions and a 14.8% increase in average ticket.

Ace added 43 new domestic stores in the third quarter of 2020 and cancelled 22 stores. The Company's total domestic store count was 4,585 at the end of the third quarter, which was an increase of 57 stores from the third quarter of 2019. On a worldwide basis, Ace added 46 stores and cancelled 29, bringing the worldwide store count to 5,403.

Ace Hardware is asking people to decorate their homes with festive lights and then share on social media as part of the #AceLightsUpTheTown contest that supports Children's Miracle Network Hospitals (CMNH). The three towns with the most submissions will win a donation in the town's name to their local CMNH. Ace has partnered with CMNH since 1991 and has raised more than \$130 million nationwide.

Ace Hardware was named a 2020 Top Workplace by the Chicago Tribune. The Top Workplace designation is based

solely on employee feedback gathered from Ace Hardware corporate team members through a third party survey administered by research partner Energage. The anonymous survey measures several aspects of workplace cultures that are critical to the success of an organization. Ace was ranked No. 4 on the survey; this is the fourth consecutive year Ace has ranked among the top 10 workplaces.

Amazon

Amazon expanded their test of in-garage delivery for Prime members from the initial 50-city market to more than 4,000 cities and towns across the US. The Key program is not mandatory; it is designed to give customers peace of mind and help them keep porch pirates at bay. In order to utilize the service, Amazon Prime members need a myQ smart garage door opener. The driver receives a temporary, one-time access code for the garage door; once it is closed, the key expires. All drivers that participate must undergo extensive background checks and are not permitted to go further than five feet into the garage.

The European Commission is formally charging Amazon with distorting competition on their online marketplace through Amazon's use of data involving independent sellers. Amazon is already being targeted by the governments of major European countries, including Germany, France and the UK, for failing to pay taxes.

Amazon reported a 51% jump in advertising revenue to almost \$5.4 billion the third quarter. Amazon's ad business is high margin.

Amazon opened an online pharmacy that allows customers to order medication or prescription refills and have them delivered in just a few days. The news sent stock prices for pharmaceutical retailers like Walgreens and CVS tumbling. Most insurance is accepted, and Prime members who don't have insurance can also buy generic or brand name drugs.

CANADA SNAPSHOT

Unemployment Drops to 8.5%



- ▶ The unemployment rate fell to 8.5% in November after being little changed at 8.9% in October. Employment increased by 62,000 (+0.3%) in November following an increase of 0.5% in October. Employment has grown an average of 2.7% per month since May.
- ▶ Most of the job gains in November were full-time jobs. Full-time employment rose by 99,000 jobs in November, but is down 3.1% year over year.
- ▶ Employment increased in Ontario, British Columbia and all four Atlantic provinces.
- ▶ In construction, employment rose by 26,000 jobs (1.9%) after being little changed since July.
- ▶ During the 2008/2009 recession, the unemployment rate rose from 6.2% in October 2008 to a peak of 8.7% in June 2009. It took approximately nine years before it returned to its pre-recession rate.
- ▶ CV19 restrictions have been reinstated in several regions and temporary layoffs remain high.

Consumer Confidence Remains at 74.1

The Index of Consumer Confidence remained at 74.1 in November after falling 9.5 points in October, according to the Conference Board of Canada. CV19 cases surged in multiple provinces in November. As the pandemic lingers, more Canadi-

ans expect their future finances and job prospects to remain the same in six months. Compared with its peak, reached in February (120.6), the index is now 46.5 points below its pre-pandemic level. 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% on a year-over-year basis in October after rising 0.5% in September. Economists had expected prices to increase 0.4%. On a seasonally adjusted monthly basis the CPI rose 0.3% in September. Prices rose year over year for five of the eight major components. Regionally, prices rose in all provinces. Lower interest rates continued to coincide with increased demand for single-family homes. This, along with higher building material costs and low inventory of homes for sale, contributed to higher costs for new housing, with new home prices increasing at their fastest pace in 14 years. The homeowners' replacement cost index, which is derived from the price of new homes, rose 1.4% month over month, the largest monthly increase since June 1991. Despite the increase, economists expect inflation to remain 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. For the year, the Conference Board now expects consumer prices to rise just 1.1%.

Q3 GDP Grows 8.9%

GDP grew 8.9% in the third quarter, following an 11.3% drop in the second quarter and a 1.9% decline in the first, according to Statistics Canada. Despite record-setting growth in the third quarter, real GDP was down 5.3% compared with the fourth quarter of 2019. The increase in GDP in the third quarter reflected reopening of the economy, with substantial upturns in housing investment, household spending on durable goods, and exports. These upturns were influenced by favorable mortgage rates, governments' continued support to households and businesses affected by the pandemic and growth in major trading partners' economies in the third quarter. Despite the rebound, household spending was down 5.0% compared with the fourth quarter of 2019. Purchases of automobiles and trucks sent durable goods purchases skyrocketing. Outlays for services rose 9.6% after falling in the second quarter, aided by the popularity of outdoor dining, but were still down 12.4% from the fourth quarter of 2019. Housing investment rose 30.2%, after declin-

ing 15.0% in the second quarter. Compared with the fourth quarter of 2019, housing investment was up 10.3%. Housing spending was driven by existing home sales as well as a 9.7% jump in new construction, combined with low mortgage rates, improved job market conditions and rising wages. Business investments in non-residential buildings, machinery and equipment and intellectual property products all rebounded, but remained below pre-pandemic levels. Canadians recorded another quarter of strong saving. The savings rate stood at 14.6%, down from a record 27.5% in the second quarter, but significantly higher than the fourth quarter of 2019, at 2.0%.

Housing and Construction News

The annual pace of housing starts rose 35% in October to a seasonally adjusted annual rate of 214,875 units, somewhat below expectations. Single-detached homes in cities such as Toronto and Montreal contributed to the upswing in starts. The six-month moving average rose slightly in October to 222,734 units. Canada Mortgage and Housing Corp. (CMHC) expects starts to trend lower by the end of the year as a result of the negative impact of CV19 on economic and housing indicators. Moving forward, they expect housing starts to remain elevated through next year, as issuance of permits has remained strong and mortgage rates are low.

Canada's home sales slipped 0.7% in October after rising 0.9% in September and were up 32.1% from October 2019. Nevertheless, sales set a record for October. The national average home price also set another October record at \$607,250, up 15.2% from October 2019. Excluding sales in the pricey Greater Vancouver and Greater Toronto areas, the national average price was about \$480,000.

2020 is on track to be the most active year in Canadian real estate history, most likely due to the number of people abandoning urban living and working from home combined with low interest rates. In the first 10 months of the year, 461,818 homes were sold over Canada's MLS system, an 8.6% increase from the same time period in 2019.

Mortgage Rates Could Head Higher

Five-year fixed mortgage rates could increase soon, according to multiple Canadian brokers who say lenders have notified them of potential hikes. Five-year fixed rates are correlated with the yield of the Canada five-year bond, which rose from 0.39%

to 0.48% on news that Pfizer's CV19 vaccine showed a 90% efficiency rate in Phase 3 trials. If the yield holds, an increase of 10 to 20 basis points would be rolled out. Canadians have traditionally favored variable rate mortgages.

Retail Sales Rise 0.4%

Retail sales rose 1.1% to \$53.9 billion in September, the fifth consecutive monthly increase since the record decline in April. Core retail sales, which exclude gasoline stations and motor vehicle and parts dealers, also rose 1.1%, on higher sales at general merchandise stores and food and beverage stores. Retail sales were up in 9 of 11 subsectors, representing 93.2% of retail trade. In volume terms, sales were up 1.1% in September. Rounding out the third quarter, retail sales were up 22.6% compared with the second quarter. In volume terms, retail sales rose 21.5%. Sales were up in eight provinces. Note: Canadian retail sales do not include spending on food services.

Retail Ecommerce Sales Rise

On an unadjusted basis, retail ecommerce sales reached \$3.2 billion in September, accounting for 5.6% of total retail trade. The share of ecommerce sales out of total retail sales rose 0.5% from August despite more retailers expanding in-person shopping and was up 2.1% year over year. Retail ecommerce sales were up 74.3% year over year in September, while total unadjusted retail sales increased 9.3%. When adjusted for basic seasonal effects, retail e-commerce rose 8.1%

Retail Notes

Canadian Tire's Q3 revenue rose 9.6% to \$3.99 billion and comp sales jumped 18.9%. Online sales grew 178%, and foot traffic in stores as well as curbside pickup grew. Canadian Tire President and CEO Greg Hicks said that CV19 has encouraged more one-stop shopping and a larger "basket size" as shoppers stock up and try to avoid multiple trips to the store.

Canadian Tire will take a more cautious approach to holiday promotions in an effort to prevent surges in traffic and maintain physical distancing in stores. Canadian retailers and package carriers such as Canada Post have implored people to shop early as they brace for a huge increase in ecommerce and packages being shipped. They plan to offer competitive deals, but to stagger them out over longer periods in order to avoid concentrating traffic in the store.

MARKET TRENDS

What Shape Recovery?

Goldman Sachs predicts that economic growth will rebound more strongly than expected during the second quarter of 2021 despite projected GDP losses in the fourth quarter of 2020 and the first quarter of 2021 caused by a resurgence of CV19. They expect the current weakness to give way to stronger growth when European lockdowns end and a vaccine becomes widely available. Goldman is predicting a GDP loss of 3.9% globally in 2020 and a bump of 6% in 2021. That would indicate a V-shaped recovery, which means the economy bounces back to baseline or better with few hiccups. Their analysis projects that even if Republicans hold the Senate they expect lawmakers will enact a \$1 trillion stimulus package, potentially even before Biden's inauguration January 20. They believe the stimulus would have a small positive impact on US growth in 2021.

Vaccines Bring Hope for the New Year

At the end of November three CV19 vaccines, from Pfizer, Moderna and AstraZeneca, were in various stages of final review and approval, with the FDA expected to approve Pfizer's vaccine, reported to be 95% effective, by mid-December, with the first doses shipping out to pre-identified hospitals and distribution points less than 24 hours later. Two other vaccines are also reporting high efficacy rates, and the current administration has begun working with President-elect Joe Biden's transition team to assure a smooth handoff that will not slow down distribution.

2021 Housing and Construction Trends

Total US construction starts will increase 4% in 2021, after dropping an estimated 14% in 2020, according to Dodge Data & Analytics. They expect the dollar value of starts for residential buildings will increase 5% in 2021, nonresidential buildings will gain 3% and nonbuilding construction will rise 7%. However, only the residential sector will exceed its 2019 level of starts. The dollar value of single-family construction will rise 7% and the number of units will rise 6%. Multifamily dollar value and the number of new units will both drop. Warehouse construction will be the clear winner in commercial building starts, which are expected to increase 5% in 2021 as ecommerce giants continue

to build out their infrastructure.

Historically low mortgage rates and the ongoing shift to the suburbs and rural areas have spurred demand and sent new home sales up nearly 17% this year. Availability issues for lots, labor and building materials is depressing some activity. NAHB notes that supply-side constraints will be a key concern throughout 2021.

Much of the increase in single-family home starts has been in the South and West, where markets have held up better during the pandemic. More than 80% of all single-family homes built over the past year have been in the South and West, which also means construction can continue over the winter. The South and non-coastal regions of the West are seeing a huge influx of residents from the large metro areas in the Northeast and West Coast, according to data analysis by Wells Fargo.

Data from the postal service on address changes and LinkedIn shows an accelerating outflow from New York, Los Angeles, San Francisco, Seattle and Portland. Phoenix, Salt Lake City, Dallas, Austin, Charlotte, Tampa, Nashville and Jacksonville have been among the fastest growing markets.

Holiday Forecasts and Strategies

Analysts' estimates of holiday spending vary widely. Gallup Poll estimates that spending on gifts will drop 14.5% this season, with 28% of Americans saying they will spend less on presents than in 2019. Wells Fargo predicts that holiday sales will increase 9%, which would be the largest year-over-year gain on record. The National Retail Federation forecast that holiday sales during November and December will increase between 3.6% and 5.2% over 2019 to a total between \$755.3 billion and \$766.7 billion. The numbers, which exclude automobile dealers, gasoline stations and restaurants, compare with a 4% increase last year and an average holiday sales increase of 3.5% over the past five years.

However, where people spend their holiday dollars is expected to undergo a pandemic shift, with surveys showing that 80% of consumers expect to do at least some of their holiday shopping online and overall less than half of all holiday shopping will be done in physical stores. NRF expects that online and other non-store sales, which are included in the total, will increase between 20% and 30% to between \$202.5 billion and \$218.4 billion, up from \$168.7 billion last year.

Retailers are making changes to keep customers safe in stores and encourage other methods of shopping, including buy online, pickup in store (BOPUS), curbside pickup, parcel lockers and buy online and ship to customers' homes or businesses. Some stores are allowing customers to avoid crowds by making online or in-app reservations to shop in a store. Some malls have introduced new "foot pedals" that allow mall doors to be opened without touching them. Hand sanitizer stations abound, along with signage about social distancing. Armies of employees roam stores constantly cleaning. Target is offering customers the opportunity to take their cart full of merchandise to any employee with the correct device, have their items scanned and leave without having to go through the checkout at all.

Mask Mandates Increase Consumer Spending

Mask mandates are good for the economy, according to a new study from Washington University. Consumer spending increased an average of 5% in communities where masks were mandated, with the greatest impact felt by so-called nonessential businesses, such as retail, restaurants and bars, that were heavily affected by the pandemic. They released a statement that mask mandates and social distancing should be considered as pro-business measures. When people feel safer to go out and spend money, they spend more. In addition, if the pandemic is kept at bay, the economy will recover more quickly. President-elect Joe Biden has repeatedly emphasized the importance of a national policy on wearing masks.

How Retailers Deliver So Fast

Dotting areas with "last mile" warehouses helps retailers get merchandise to customers homes in a matter of hours, not days. Amazon has more than 150 such warehouses and other big retailers are following suit as everyone attempts to speed up the last mile journey from retailer to customer. Areas with higher population density can support more last mile warehouses. Amazon's last-mile warehouses adhere to precise schedules, with packages arriving via tractor-trailer trucks and being sorted by delivery routes between 10 p.m. and 7 a.m. Packages are loaded into delivery vans every 20 to 30 minutes, starting after 9 a.m., and the last driver begins their route by 1 p.m. Empty vans return to the parking lot between 7 and 9 p.m. Once vans have departed, independent contractors who use

their own vehicles and are paid between \$22 and \$25 an hour arrive to pick up parcels scheduled for same-day delivery. The Home Depot is opening about 150 last-mile warehouses that will also handle bulky, large items, including appliances.

Pandemic Panic Buying Returns

CV19 cases soaring to new heights across much of the US resulted in another wave of panic buying and hoarding of toilet paper, paper products, sanitizer, cleaning wipes and other cleaning supplies. Retailers say they are more prepared and better able to respond quickly than they were in the early stages of the pandemic, and many have already placed quantity limits on certain items.

How Brands Connect

Apple has been the most "intimate" brand during the pandemic, according to MBLM's Brand Intimacy COVID Study, which ranked brands based on emotional connections during the pandemic. **Amazon, Google and Walmart ranked second, third and fourth** in the study. The top brands that people are using more during the pandemic are Zoom, Purell and Netflix. Purell is the number one brand people are willing to pay more for, with consumers willing to pay 20% more for Purell brand products. Access and connection brands, including Verizon and AT&T, also got strong ratings. Interestingly, during the pandemic men are forming deeper attachments to brands than women are. Media and entertainment, automotive and retail are the top three industries for brand intimacy. MBLM conducted a quantitative survey of 3,000 consumers in the US detailing their experiences across 10 industries and 100 brands in order to create the survey.

World's Biggest Free Trade Deal

Fifteen Asia Pacific countries signed a free trade deal that was first proposed in 2012. The deal is seen as a huge coup for China. The Regional Comprehensive Economic Partnership (RCEP) includes 10 Southeast Asian economies along with China, Japan, South Korea, New Zealand and Australia. The agreement has reportedly been in negotiations for eight years.