BOSCH

# Market Briefing

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**Who's Responsible When Pets Go Shopping?**

**Bosch | Dremel**

**RotoZip | Vermont American**

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## US ECONOMY

### Exchange Rates January 31, 2019

| | | |
|---|---|---|
| **Euro** | 1 Euro = $1.145 | $1.00 = 0.873 Euros |
| **Canadian Dollar** | 1 CAD = $0.761 | $1.00 = 1.314 CAD |
| **Japanese Yen** | 1 Yen = $0.009 | $1.00 = 108.869 Yen |
| **Chinese Yuan** | 1 Yuan = $0.149 | $1.00 = 6.701 Yuan |
| **Mexican Peso** | 1 Peso = $0.052 | $1.00 = 19.053 Pesos |

### Market Watch January 31, 2019

| | | |
|---|---|---|
| **DOW** | 25,000 | 7.2% |
| **NASDAQ** | 7,282 | 9.7% |
| **S&P 500** | 2,704 | 7.9% |

The markets rallied in January on good corporate earnings, solid economic news and reassurance that the Fed would not raise rates any time soon. The S&P, the index most closely followed by economists, turned in its best January performance since 1987, and its biggest monthly gain since October 2015. The DOW also had the largest monthly increase since 2015 and the biggest January gain in 30 years. The NASDAQ jumped 9.7% in January, its largest monthly gain since 2011.

### Consumer Confidence Drops to 120.2

**The New York-based Conference Board's Consumer Confidence Index fell to 120.2 in January** after dropping to 128.1 in December, according to the Conference Board's latest survey. The third consecutive monthly decline was most likely due to continued financial uncertainty and the government shutdown. The Present Situation Index, which is based on consumers' assessment of current business and labor market conditions, declined from a downwardly revised 169.9 to 169.6. The Expectations Index, which is based on consumers' short-term outlook for income, business and labor market conditions, fell sharply, to 87.3 from a downwardly revised 97.7 in December. While confidence is still above the level that indicates growth, analysts note that three consecutive monthly declines could pose issues for consumer spending ahead. However, the Conference Board stated that much of the decline was most likely driven by the shutdown, and said that "shock events" tend to have a very sharp but temporary impact on confidence. Economists note that a level of 90 indicates that the economy is on solid footing and a level of 100 or more indicates growth. Analysts caution that the real driver behind consumer spending is income growth and that labor market trends are a more accurate predictor of consumer behavior.

### Consumer Spending Delayed

**The report on consumer spending due out in January was delayed by the government shutdown.** Consumer spending rose 0.4% in November after rising an upwardly revised 0.8% in October. It was the ninth consecutive month that consumer spending increased. Personal incomes rose 0.2% in November after rising 0.5% in October. The savings rate dropped to 6%, a five-year low. The personal consumption expenditures (PCE) price index excluding food and energy edged up 0.1% from October and the annual core PCE price index was up 1.9%, still slightly below the Fed's inflation target of 2.0%.

### Consumer Prices Fall 0.1%

**The Consumer Price Index (CPI) fell 0.1% in December after being unchanged in November;** it was the first decline in the CPI in nine months. The CPI rose 1.9% over the past twelve months, down from a 2.2% annual increase in November. Core inflation, which excludes food and energy, rose 0.2% for the third consecutive month and was up 2.2% from December 2017. Falling gasoline prices were behind the overall decline in the CPI once again. Retail gas prices dropped 7.5%, reflecting the sharp drop in crude prices over the course of the fourth quarter.

### Unemployment Rises to 4%

**The unemployment rate rose to 4% in January after rising to 3.9% in December and the economy added a very robust 304,000 new jobs,** well ahead of expectations of 170,000 new jobs. However, job numbers for November and December were revised. Gains for December were revised down to 222,000 from the 312,000 first reported, while gains for November rose to 196,000 from the 176,000 new jobs first reported. The net result was 70,000 fewer jobs for November and December, which took the three-month average down to 241,000 jobs, still well above trend. For the full year of 2018, the average monthly gain was 223,000. Average hourly earnings rose just 3 cents for the month, or 0.1%, well below expectations. Average hourly earnings were up a solid 3.2% year over year. Construction added 52,000 new workers in December, bringing the total number of construction workers added since January 2018 to 338,000. January was the 100th consecutive month of positive job creation, by far the longest stretch on record. The increase in the unemployment rate was most likely due to fallout from the government shutdown, although the government workers directly affected were actually counted as employed since they received pay during the survey week of January 12. The economy needs to create about 120,000 new jobs each month to keep up with growth in the working-age population.

## Durable Goods Orders Delayed

**The durable goods report for December was delayed due to the government shutdown.** Durable goods orders rose 0.8% in November after plunging an upwardly revised 4.3% in October. Economists had forecast a 1.6% increase in orders. The increase was primarily driven by aircraft orders for both commercial and military aircraft. Core durable goods orders for nondefense capital goods excluding aircraft, widely regarded as a key indicator of business spending, fell 0.6% after being flat in October. Nondefense capital goods shipments, which factor into GDP, rose 2.4% in November after falling 0.6% in October. The durable goods report is volatile and often subject to sharp revisions.

## Chicago PMI Falls to 56.7

**The Chicago Purchasing Managers' Index (PMI) fell 7.1 points to 56.7 in January** after dropping to a downwardly revised 63.8 in December. Four of the five components fell, with sizable drops in Production and New Orders accounting for most of the decline. However, it was the 24th consecutive month the PMI was above 50, the level that indicates growth. The Prices Paid component was unchanged for the month, ending five consecutive months of declines. Respondents reported higher prices in raw materials and metals and continued pressure from supplier price increases. A total of 42.9% of firms surveyed believed that their business had not been impacted by market volatility, while 40.8% believed market volatility was impacting their business. The remaining 16.3% of firms were not certain if market volatility was impacting their business.

## Wholesale Prices Fall 0.2%

**The Producer Price Index (PPI) fell 0.2% in December** after rising 0.1% in November. The PPI rose 2.5% in 2018. Core producer prices, which exclude food, energy and trade services, were flat in December after rising 0.3% in November and were up 2.8% from December 2017. The sharp drop in oil prices over the fourth quarter pulled down energy costs. Input costs for services and core goods are running ahead of selling prices, which points toward pressure on profit margins. Core PCE data for December, the Fed's preferred measure of inflation, was delayed due to the government shutdown.

## Q4 GDP Delayed

**The first reading for Q4 GDP was delayed by the government shutdown.** GDP growth slowed to 3.4% in the third quarter, according to the third and final reading from the Commerce Department. Growth was previously reported at 3.5% in both the first and second reading. The revision was due to downward revisions to consumer spending, which grew 3.5% rather than the 3.6% first reported and a further downward revision to exports. Inventories were revised upward from $86.6 billion to $89.8 billion, and added 2.33% to GDP growth, the biggest contribution since the fourth quarter of 2011. Consumer spending accounts for more than two-thirds of US economic activity.

## Job Openings Drop

**The number of job openings dropped by 243,000 to 6.9 million in November** after rising to 7.1 million in October, according to the most recent Job Openings and Labor Turnover Survey (JOLTS). Job openings hit a record high of 7.3 million in August. In November construction vacancies fell by 45,000, with much of the decrease in openings concentrated in the West. The job openings rate slipped to 4.4% in November after rising to 4.5% in October. Hiring dropped by 218,000 to 5.7 million, and the hiring rate fell to 3.8% from 4.0% in October. The number of workers quitting their jobs fell by 112,000 to 3.4 million in November, and the quits rate was unchanged at 2.3%. Many companies reported difficulties in finding qualified workers. A survey from the NFIB showed that the share of small business owners with job openings they could not fill jumped five points to a record high of 39% in December. That lifted the job opening rate to 4.5% from 4.4% in October. The JOLTS report is one of the Fed's preferred economic indicators.

## Fed Will Wait on Rate Increases

**The Fed left interest rates unchanged at 2.25% to 2.50% when they met at the end of January.** The decision to wait on interest rate increases was unanimous as well as widely expected. The Fed board downgraded their assessment of the economy, estimating that GDP growth continued to slow in the fourth quarter of 2018, and will slow further in the first quarter this year. The Fed also stated that economic expansion is still the most likely long-term outcome, but that they can be patient as there is no need to raise rates right now. Wells Fargo believes that another rate hike will eventually ensue this year, but the Fed will then remain on the sidelines through much of 2020. They also forecast that real GDP will grow at an annualized rate between 2.0% and 2.5% this year. In addition, the very low unemployment rate will continue to put some upward pressure on wage inflation. The Fed raised rates four times in 2018 and had originally penciled in two increases for this year. Fed Chairman Jerome Powell's statement is noteworthy because he has long favored a more aggressive outlook for monetary policy.

## Government Shutdown Truce

**The US government shutdown that began at midnight on December 22, 2018 was temporarily ended on January 25 with an agreement that reopened the government until February 15,** allowing Federal government employees to get paid while Congress attempts to negotiate a permanent agreement. The Congressional Budget Office (CBO) estimates that the 36-day shutdown cost the government about $3 billion and will subtract about 0.4% from GDP in the first quarter. All in all, about 800,000 government workers were affected, more than half of whom were actually on the job even though they were not getting paid. It was also announced that many reports produced by various departments due out in January would be delayed.

# HOUSING & CONSTRUCTION

## Housing Starts Delayed

**Housing starts rose 3.2% in November** to a seasonally adjusted annual rate of 1.26 million after rising to a downwardly revised reading in October. Year-to-date starts are 5.1% above November 2017. **Single-family starts fell 4.6%** to 824,000 units after falling to 865,000 units in October. It was the third consecutive monthly decline for single-family starts. Multifamily starts rose 22.4% to 432,000 units after rising to 363,000 units in October. Multifamily data tends to be particularly volatile on a month-to-month basis. NAHB Chief Economist Robert Dietz said that builders are reluctant to add inventory because housing affordability concerns are causing consumers to delay purchases.  Nevertheless, 2018 construction volume should be the best since the Great Recession. Regional starts were mixed. Starts rose 11% in the West and 5.3% in the South. Starts fell 1.9% in the Midwest and 0.8% in the Northeast.

## Building Permits Delayed

**Overall building permit issuance rose 5% in November** to 1.39 million units after falling 0.6% in October. **Single-family permits inched up 0.1%** to 848,000 units and multifamily permits rose 14.8% to 480,000 units. **Regional permit issuance was mixed.** Permits rose 8.2% in the South and 3.2% in the West. Permits fell 2.7% in the Midwest and 2.8% in the Northeast.

## New-Home Sales Delayed

**New Home sales jumped 16.9% in November** to a seasonally adjusted annual rate of 657,000 units after falling to an upwardly revised 544,000 units in October. Sales were down 7.7% from November 2017. The inventory of new homes for sale rose to 330,000 in November after October inventory was revised down. Inventory has risen 18% over the past year. The median sales price dropped to $302,400 after falling to $309,700 in October as the market continues to shift to lower-priced homes. **Regional sales were mixed.** New home sales rose 20.6% in the South, 30.5% in the Midwest and 100% in the Northeast. Sales fell 5.9% in the West. Over the past year, the median price of a new home has fallen 11.9%, which equates to $41,0000. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

## Existing Home Sales Fall 6.4%

**Existing home sales fell 6.4% in December to a seasonally adjusted annual rate of 4.99 million** after rising to 5.32 million homes in November. Sales were 10.3% below December 2017 and at the slowest pace since November 2015. The combination of rising home prices and higher mortgage rates caused sales to lose momentum throughout 2018. **Sales fell in every region during December,** dropping 11.2% in the Midwest, 6.8% in the Northeast, 5.4% in the South and 1.9% in the West. Inventory levels fell 12.3% to 1.55 million, but were up 6.2% from December 2017. Homes are staying on the market slightly longer, which gives buyers more negotiating room. The partial government shutdown that began December 22 did not have much impact on sales in December, but may have caused delays in the mortgage underwriting process, which could have impacted January sales.

## Builder Confidence Rises to 58

**Builder confidence rose two points to 58 in January** after falling four points to 56 in December, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). The gradual decline in mortgage rates helped stabilize builder confidence. All the HMI components posted gains in January. The index measuring current sales conditions rose two points to 63, the component gauging expectations in the next six months increased three points to 64 and the index charting buyer traffic edged up one point to 44. The three-month moving averages for regional HMI scores all declined, with the Northeast dropping five points to 45; the Midwest and South both falling three points to 52 and 62, respectively; and the West dropping one point to 67.

## Mortgage Rates Fall to 4.45%

**A 30-year fixed-rate mortgage (FRM) fell to 4.45% at the end of January** after dropping to 4.55% at the end of December. The 30-year FRM was 4.15% at the end of January 2018. Rates are currently hovering at approximately the same levels they were at last spring. Freddie Mac says weekly mortgage activity was strong in January despite the government shutdown and expects the decline in home sales to stabilize or even reverse over the next few months.

## Remodeling Index Drops to 57

**The National Association of Home Builders' (NAHB) Remodeling Market Index (RMI) fell one point to 57 in the fourth quarter,** but has remained solidly in positive territory since the second quarter of 2013. According to the NAHB, the overall remodeling market remains strong, but remodelers are concerned about rising labor and input costs and are dealing with home owners who expect lower bids. Among the index's three major components, major additions and alterations remained steady at 56, minor additions and alterations decreased one point to 56 and the home maintenance and repair component fell one point to 59.The future market indicators dropped three points from the previous quarter to 56. Calls for bids remained at 57, the amount of work committed for the next three months decreased seven points to 52, the backlog of remodeling jobs fell three points to 59 and appointments for proposals decreased four points to 55.

# POWER TOOL INDUSTRY

## Robert Bosch

**The Bosch Group had another record-setting year in 2018, with sales adjusted for FX rising 4.3% to 77.9 billion Euros.** Due to very adverse exchange-rate effects, sales in the Consumer Goods sector fell 3.2%, but adjusted for FX, sales increased 0.9%. Adjusted for FX, sales in North America rose 7.9%.

**In discussing the stellar year, Dr. Volkmar Denner, chairman of the board of management of Robert Bosch GmbH, said that artificial intelligence for industrial applications will become one of their core areas of expertise.** He stated that by 2025 they want all of their products to be equipped with AI or for AI to have played a part in their development and manufacture. Denner said that today American and Chinese companies dominate consumer-industry AI, but Bosch intends to master AI and join the global elite. They plan to quadruple the number of in-house AI experts, going from 1,000 today to 4,000 by 2021.

**Bosch's outlook for this year is cautious.** They expect the global economy to grow 2.3%, with their cautious outlook fueled by numerous ongoing geopolitical developments, including the unresolved Brexit issue and various trade conflicts, along with punitive tariffs and other trade issues.

**Each year Bosch invests 250 million euros** in professional training for their associates, who can choose from among 19,000 different programs. New offerings include video classes and apps for learning on the go. The new development is "Bosch Tube," a kind of YouTube for associates, who can create their own video tutorials and upload them to Bosch Tube.

**Bosch has simplified their corporate structure,** consolidating 40 corporate departments into 20 and reducing the number of board members to which departments report from 8 to 4.

**"Like a Bosch" is the tagline of a new global image campaign that debuted at the Consumer Electronics Show in** Las Vegas in early January. The campaign is designed to get the message across that Bosch is a leading provider of connected products and solutions. ***View "Like A Bosch" video.*** The campaign puts a fresh spin on an internet phenomenon of videos that feature everyday people who stage bizarre stunts, perform impressive athletic feats or find their way out of predicaments with technical finesse "Like a Boss." The young hip-hop star who is also a savvy IoT user is always on top of things from car to lawnmower to coffee machine thanks to connected solutions from Bosch. The campaign is intentionally humorous and Bosch hopes to spark a viral IoT movement and reach a mass audience. Bosch sold 38 million web-enabled products in 2017, and today 20% of Bosch's 27,000 software developers focus exclusively on the Internet of Things (IoT). Bosch expects the global IoT market to grow 35% a year and reach an annual volume of $250 billion US dollars by 2020.

**Bosch experts participated on several panels during the Consumer Electronics Show,** including Connected Home Innovations with Anne Rucker, Global Head of Digital Strategy; Technology, Jobs and the Future of Work with Charlie Ackerman, Senior Vice President of Human Resources North America and IoT to the Max, Thanks to 5G, with Davie Sweis, Vice President of Global Digital Business North America.

**The state of Pennsylvania awarded a grant to the new Bosch Rexroth apprenticeship program** for recent college graduates with degrees in engineering or related fields. The program is designed to allow Bosch to create a succession plan for employees in specific positions that require specialized knowledge and training. Bosch Rexroth will work with area universities and career and tech centers to identify possible candidates among graduating college students. Then Bosch will pair those identified with mentors who will teach them the skills they will need to fill those positions.

## Stanley Black & Decker

**Q4 revenue increased 5% to $3.63 billion, with organic growth of 6%,** ahead of analysts' estimates. The increase was due to 5% growth in volume, 2% growth from acquisitions and 1% from price, which more than offset the 3% decline that was due to foreign exchange (FX).

**Full year revenues rose 8% to $14 billion, with 5% organic growth.** Working capital turns for the quarter were 8.8, down 0.3 turns from prior year primarily as a result of carrying higher levels of inventory associated with the Craftsman rollout.

**Tools & Storage net sales increased 4% from Q4 2017**, due to a 5% increase in volume and a 2% increase in price, which was partially offset by currency (-3%). North America net sales were up 10%, with organic growth of 7% driven by new product innovation, the rollout of the Craftsman brand and price realization. Organic growth included 5% from volume and 2% from price.

**Q4 and Full 2018 Conference Call with Analysts:**

**SB&D faced unusual and volatile external headwinds during 2018,** with pressure from input cost inflation, FX and tariffs growing from their initial guidance of $150 million pretax to $370 million. They offset all but $50 million with additional price/cost management and other actions.

**They expect to see benefits this year from the rollout of the Craftsman brand and the repositioning of the Stanley and Stanley FatMax brands** in the North American home center channel.

**They are on track for $1 billion in revenue growth for Craftsman by 2021,** seven years ahead of original estimates. The response they've seen from customers and end users with Craftsman has been very encouraging. The accelerated growth projections are being driven by strong user acceptance and outstanding in-store execution by both Lowe's and Ace Hardware.

**FlexVolt delivered mid-teen growth for the year and improved profitability,** which is now in-line with segment average. They expect to see future revenue benefits from FlexVolt, as well as new innovations coming to market in Tools and other segments.

**Hand Tools, Accessories and Storage delivered 8% organic growth** as new product introductions, the continued Craftsman rollout and Irwin and Lenox revenue synergies all contributed to growth.

**They are in the process of developing and executing an array of margin expansion initiatives** they will be covering more fully at their investor meeting in May.

**They project 4% organic growth for 2019,** at the low end of their goal of 4% to 6% organic growth. They anticipate mid-single digit organic growth for Tools & Storage.

**They expect the external environment to continue to be challenging in 2019**, and estimate that heavy external headwinds will have a negative 2% impact.

**They have included slowing economic growth in the US and slowing construction markets in North America in their guidance.** North America is still expected to outpace Europe and emerging markets this year.

**Home Depot is now the exclusive home channel retailer both in-store and online for Stanley and Stanley FatMax hand tools and storage products.** Products will begin to ship in the first half of this year. That means those products and Porter Cable will no longer be available from Lowe's.

**They are working on a lot of elements of digital technology that can be used to create value in the company** by managing processes in a much more efficient manner. They believe they will generate hundreds of millions of dollars of benefit over a two to three-year period, and will elaborate and discuss further at their May meeting.

**There has been some easing in commodity inflation since December,** as some of the commodities they use are engineering-grade, and there has not been as much commodity inflation in those categories as in more general commodities like steel.

**Other News:**

**SB&D was named to the Carbon Disclosure A List for both climate change and water,** something CEO James Loree termed a great recognition and honor that underscores their commitment to social responsibility.

**SB&D made their first appearance at the Consumer Electronics Show in Las Vegas** in early January, partnering with Cognitive Systems on a motion-based home security product. SB&D also showed off Pria, a voice-controlled home health assistant and automated medication management solution that allows caregivers to program medication schedules.

**SB&D is now accepting applications for the Stanley+Techstars Accelerator.** This is the second year for the program. The 2019 accelerator wants to draw world-class applicants and will consider startups who work with sustainable packaging or additive manufacturing. Last year the accelerator focused on 3D printing companies and additive manufacturing.

**SB&D acquired The Zimmerman Group in Lahnau, Germany.** The group specializes in mechanical engineering components and will continue to supply Tucker GmbH in Giessen, which also belongs to SB&D. The previous management team and 70 employees will remain in place.

## RETAIL

### Retail Sales Delayed

**The report on retail sales for December and the full year was delayed by the government shutdown.** Retail sales edged up 0.2% in November after jumping 0.8% in October. Sales were up 5.3% year to date. Core retail sales, which exclude autos, gasoline, building materials and food sales, rose 0.9% in November after rising an upwardly revised 0.7% in October. However, non-store sales, which are primarily internet and catalog sales, rose 2.3% after rising 0.8% in October and were up 12.1% year over year. Building materials and garden supply stores fell 0.3% but were up 3.5% annually. Many economists are unsure about how the trade wars, plunging stock market and new tariffs will impact retail sales going forward.

**Buy online, pickup in-store spending increased 47% from November 1 to December 19 in 2018 compared to the same time period in 2017,** according to data from Adobe Analytics, making it the biggest holiday on record for online pickups. Analysts say the concept appeals to shoppers who want to grab their stuff and go without waiting in line or interacting with employees on the floor. Picking up an order can also be much faster than waiting for home delivery. Allowing customers to pick up orders in stores requires increased security, tight inventory control, procedures that prevent fraud and additional staffing. Walmart reportedly has 25,000 trained personal shoppers to select produce and meat at stores to fulfill online orders.

**It was the biggest holiday season ever for online shopping, according to Adobe Digital Insights.** American consumers spent $126 billion for online retail purchases from November 1 through December 31. That's a daily average of $2 billion, a new record. There were 26 days that saw at least $2 billion in online retail spending, compared with 15 days in 2017. Amazon dominated retail ecommerce, with $252 billion in sales, or 48% of the US market, followed by eBay, with $37.8 billion, 7.2% of market. Walmart's $20.9 billion in sales accounted for 4%. As expected, the slowest day for online purchases was Christmas Eve, with just $880 million in sales.

## Lowe's

**CEO Marvin Ellison plans to hire 65,000 seasonal and permanent employees this year, including the first 500 of a planned 2,000 IT employees.** Lowes plans to cut some jobs as they eliminate services such as project specialists for interior home jobs. The hiring includes 50,000 seasonal jobs for spring, the busiest time for Lowe's and other home improvement retailers. Lowe's will also hire 10,000 people for permanent jobs in their 2,240 stores to create a merchandising service team that will manage store inventory and carry out resets of merchandise in stores. Another 6,000 full-time assistant store managers and department supervisors will be added. Ellison says they are investing in key leadership positions to enhance customer service while also creating jobs that will improve the availability of their most popular products, transform the technology infrastructure and provide more access for customers to the home improvement expertise of store associates.

## Walmart

**Walmart ended their cashier-less stores test in April of last year.** CTO Jeremy King told attendees at the National Retail Federation's annual Big Show conference in mid-January that they decided to end the program shortly after expanding the test to 125 stores because it was error-prone and proved difficult to scale. It was difficult to police how people were scanning their products, and things like multiple quantities of a product presented problems. King said that computer vision and other leading technologies on the horizon may solve those problems by using cameras and sensors to "see" and understand like a human. Walmart's tech division is currently looking for a "Principal Data Scientist/Computer Vision" engineer according to recent job posts.

**Walmart plans to add 2,000 tech jobs this year to help expand their online business** and better compete with Amazon, according to CTO Jeremy King. They plan to hire data scientists, software engineers, designers and other experts to work in nine offices in the US and abroad. The additional jobs will expand Walmart's technology group by more than 25%. King currently oversees about 7,500 employees in the tech division, which added 1,700 people last year. The tech team will support Walmart's in-store tech efforts, including robots that clean floors and scan shelves. New technologies include a store map that allows staff to pick online orders faster by using an optimal route and enabling curbside grocery pickup, currently available in about 2,100 stores.

## Sears

**Sears' CEO Eddie Lampert won a bankruptcy auction in mid-January.** Sears advisers accepted Lampert's bid, worth more than $5.2 billion, after two days of tense negotiations. Bankruptcy court still has to approve the deal. Meanwhile, a group of creditors is seeking approval to sue, accusing Lampert of years of mismanagement and deliberately dismantling Sears for his own gain. If accepted, the deal will keep about 400 Sears stores open and save about 45,000 jobs. Sears filed for voluntary Chapter 11 in mid-October.

## Ace Hardware

**Ace Hardware Corporation was named one of the Best and Brightest Companies to Work for in the Nation by the National Association of Business Resources.** The Best and Brightest Program recognized 512 national winning organizations from across the country out of 2,400 nominations. Ace Hardware was named one of the top 100 highest-scoring companies in the country. Ace Hardware was also recognized as one of Chicago's Best and Brightest Companies to Work for in 2018 by the National Association of Business Resources. For the second consecutive year, Ace Hardware also ranked among the top 10 employers for the Chicagoland area in *The Chicago Tribune's* 2018 Top Workplace list.

## True Value

**True Value is moving forward with an investment of $100 million for supply chain advancements** that will alleviate congestion in distribution centers and ensure that True Value provides the highest fill rates. Last March, True Value announced plans to sell 70% ownership of the organization to private investment firm ACON Investments. That decision transitioned True Value away from its long-time identity as a co-op. In April, more than 80% of True Value members approved the deal. President John Hartmann covered nearly 30,000 miles visiting stores across the country, including hosting 15 town hall meetings in the US over a four-week period in late March and early April. Hartmann said the appeal of their new structure is the ability for members to access first-class retail services without the usual buy-in, thus freeing up capital.

## Amazon

**Q4 revenues rose 20% to $72.4 billion.** North American sales rose 18% to $20.8 billion. Amazon Web Services (AWS) sales rose 45% to $7.4 billion and subscription services, which include Amazon Prime and Amazon Music, rose 25% to $3.9 billion. The largest percentage increase was in Amazon's "Other" category, which is primarily advertising. Revenue rose 95% to $3.4 billion. Amazon's forecast for the first quarter was slightly below expectations.

**Amazon's national TV media spending jumped 60% last year** to $679.1 million and has nearly doubled since 2015, according to estimates from Kantar Media. Amazon was one of the top 15 national TV spenders last year, spending more than Toyota or McDonald's.

**Amazon has a program that quietly sends customers samples of free products** Amazon thinks the customer might like. The program uses machine learning and predictive analytics to send samples of goods like Folgers coffee, Bear Naked granola and dog food. The program is known as Amazon Product Sampling, and is supported by the brands being sampled. It's another part of Amazon's growing advertising business, which is expected to more than quadruple by 2023.

**Amazon has partnered with Chamberlain Group, a leading manufacturer of garage door openers, in order to allow Amazon Prime members to receive in-garage delivery of packages.** Chamberlain Group is providing its myQ-connected garage door opening technology to Key by Amazon, a service that allows select Prime members to receive deliveries in their home, car and now garage. The service will be available in the second quarter to Prime members in 37 cities. In addition to the delivery service, any person with a myQ-connected garage door opener will be able to monitor and control their garage door from anywhere via Amazon's Key app.

**Amazon will sponsor a Las Vegas convention that will be open to the public on robotics, space and artificial intelligence.** It will also cover future applications of emerging technologies. The conference, titled re:MARS (Machine Learning, Automation, Robotics and Space) will bring together experts and visionaries from diverse areas to share learning and spark ideas for future innovations. Attendees will also meet Amazon technology engineers and see the Blue Origin rocket capsule developed by the private space firm owned by Amazon CEO Jeff Bezos. Speakers will include researchers from MIT, the University of California, NASA's Jet Propulsion Laboratory and the Harvard Berkman Center.

**Amazon spent a record $14.2 million on lobbying the US government in 2018,** according to regulatory fillings. Issues of interest to Amazon included privacy, immigration, new tariffs, healthcare plans, drug prices and food safety. Amazon spent $13 million lobbying in 2017.

# CANADA SNAPSHOT

## Interest Rates Fall

**The Bank of Canada (BoC) left interest rates unchanged at 1.75%** at its meeting in early January, as was widely expected by analysts. The BoC said that it will keep a close eye on the evolution of several recent developments while considering the timing of the next rate hike. The BoC has pegged the neutral rate at between 2.5% and 3.5%, so several more increases will eventually be on the way in order to prevent the economy from overheating unless a real downturn develops. Analysts expect the BoC to pause until oil prices recover and speculate the next increase might not come until March.

## Unemployment Rate Unchanged at 5.6%

**Employment held steady in January for the second consecutive month** and the unemployment rate was unchanged at 5.6%, according to the latest Labour Force Survey. In the 12 months to December, employment increased by 163,000 (+0.9%), entirely driven by gains in full-time work (+185,000 or +1.2%). Over the same period, total hours worked rose 0.9%. In December, employment increased in Newfoundland and Labrador, while it fell in Alberta, New Brunswick and Prince Edward Island. There was little change in the other provinces. While employment held steady overall, increases were recorded in manufacturing, transportation and warehousing, as well as in health care and social assistance. At the same time, there were declines in wholesale and retail trade as well as in public administration. The number of employees was little changed in the public and private sectors, while self-employment increased. Over the course of 2018, the unemployment rate fell 0.2% to 5.6%, the lowest rate since comparable data became available in January 1976. Full-time employment continued on an upward trend in 2018, growing by 185,000, or 1.2%, while part-time employment was little changed.

## Consumer Confidence Falls

**Consumer Confidence in Canada fell 5.4 points to 52.43 in December** from 57.05 in November. Consumer Confidence in Canada averaged 53.43 from 2010 until 2018, reaching an all-time high of 57.05 in November of 2018 and a record low of 46.80 in February of 2016. Rising interest rates and weaker wage growth have started to take their toll on confidence across the country, as all but one region saw a decline in its index. With interest charges starting to take a bite out of Canadian wallets and weakening wage growth offering little reprieve, Canadians have become much less willing to make major purchases and more disgruntled with the state of their finances. 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 2.0%

**The Consumer Price Index (CPI) rose 2.0% in December** after falling 1.7% in November, according to Statistics Canada. Lower energy prices were offset by higher prices for various services. Excluding gasoline, the CPI rose 2.5% in December. All eight major components recorded year-over-year increases in December, with the largest increase coming from the shelter index, which rose 2.4%. Consumer prices for services were up 3.5% year over year. On a seasonally adjusted monthly basis, the CPI rose 0.2% in December after falling 0.1% in November. Prices for food, healthcare and personal care increased the most.

## GDP Falls 0.1%

**Canada's GDP fell 0.1% in November** to a seasonally adjusted 1.94 trillion Canadian dollars after rising 0.3% in October. GDP was up 1.7% from November 2017. Results were in line with economists' expectations. Wholesale trade dropped 1.1% and was the biggest reason for the decline, which was partially offset by Increases in services. The construction sector declined for the sixth consecutive month in November, contracting 0.3% to fall to its lowest level since the middle of 2017. Residential construction fell 1.0% while multifamily construction rose. Non-residential construction was down 0.7%.

## 2019 GDP Forecast

**The Bank of Canada (BoC) now expects the Canadian economy to grow just 1.7% this year,** down from its previous forecast of 2.1% and the estimated 2% pace for 2018. Economists estimate that Alberta's oil production cuts will trim 0.2% off Canada's real GDP in 2019, which had been forecast at about 2%. Research notes issued by several of Canada's big banks all concur, saying that recently announced oil cuts will take a bite out of overall economic output. The BoC also noted that the US-China trade war is "weighing on" the global economy and depressing prices for many of the commodities that dominate Canadian exports. Housing activity has also been weaker than expected as home buyers adjust to tougher mortgage rules, new restrictions on foreign buyers and previous mortgage rate hikes.

## Housing and Construction News

**The annual pace of housing starts dropped to 213,419 units in December** after rising to an upwardly revised 224,349 in November. The results beat analysts' expectations of 205,000 starts. Canada Mortgage and Housing Corp (CMHC) says that preliminary figures for the year show that there were a total of 214,020 housing starts in 2018 compared to 219,763 in 2017, above their previous estimate for 2018. Demand is being supported by the fastest population growth in 27 years and new households being formed by millennials.

**Home sales fell 2.5% in December** to 36,759 on a seasonally adjusted basis, according to the Canadian Real Estate Association. Sales were down 19% from December 2017, partially due to the fact that December 2017 saw a rush of buyers anxious to close deals before tighter mortgage rules went into effect in January 2018. December was the fourth consecutive month sales declined, making 2018 the weakest year for home sales since 2012. **Sales were down in about 60% of all local markets in December,** led by Greater Vancouver, Vancouver Island, Ottawa, London and St. Thomas and Halifax-Dartmouth. CREA says the national average price for homes sold in December was down 4.9% year-over-year to $472,000. Excluding

Greater Vancouver and the Greater Toronto Area, two of Canada's most active and expensive markets, the average sales price was just under $375,000.

**The CREA projects that home sales in Canada will fall double-digits this year** to their lowest level in the past five years. Analysts noted that the markets are a long way from the highs seen in 2016 and early 2017 and expect a prolonged period of "calm" in the housing market.

**Total investment in building construction decreased 2.0% from October to $13.7 billion in November.** Both the residential (-2.2% to $9.4 billion) and non-residential (-1.6% to $4.3 billion) sectors declined. The decrease in total residential investment in November was largely due to declines in Alberta (-$152 million), Ontario (-$72 million) and Quebec (-$56 million), which were partially offset by increased investment in British Columbia (+$81 million). In the residential sector, investment in single dwelling construction was down 2.0% to $4.9 billion, while investment in multiple dwelling construction (which includes doubles, row homes and apartments) declined 2.5% to $4.5 billion.

### Retail Sales Drop 0.9%

**Retail sales dropped 0.9% in November** to $50.4 billion after rising 0.3% to $51.0 billion in October. Excluding gasoline stations and motor vehicle and parts dealers retail sales increased 0.2%. After removing the effects of price changes, retail sales in volume terms fell 0.4% after being unchanged in October. Sales were down in six subsectors and eight provinces. On an unadjusted basis, retail ecommerce sales reached $2.3 billion in November, accounting for 4.2% of total retail trade. On a year-over-year basis, retail ecommerce increased 20.1%, while total unadjusted retail sales rose 1.1%. In Canada, retail sales account for about half of all consumer spending and are considered a proxy for overall consumer spending.

### Retail Notes

**Walmart Canada committed to reducing their use of non-recyclable plastics.** They plan to reduce the use of plastic bags at checkout by an additional 25% by 2025, which would take about one billion check-out bags out of circulation. Walmart also committed to eliminating single-use plastic straws and replacing them with paper alternatives by 2020, which will take about 35 million single-use plastic straws out of circulation annually. They also committed to achieving 100% recyclable, reusable or compostable packaging for their own private label products by 2025, and will eliminate hard to recycle PVC and expanded polystyrene packaging from all of their private label products by 2025. Walmart Canada says they will be the first Canadian retailer to publicly commit to using How2Recycle labelling on all of their own private label packaging by 2025.

## MARKET TRENDS

### Supply Chain and Logistics Programs More Popular

**Reports from universities and colleges around the country note that logistics and supply chain coursework and career pathways are figuring more prominently in curriculum,** driven by interest from both students and employers. Some supply chain professors noted that students don't really understand logistics; they get them excited by telling them "we're like Amazon." A survey by the National Association of Colleges and Employers (NACE) showed that supply chain graduates are in demand by employers, with more than 40% of those responding planning to hire supply chain graduates in the next year. The University of Washington has several programs, and launched a Master's program for Supply Chain Management in 2016. Until recently it was more common for students to take a few classes as part of a larger marketing or business degree, but now in the age of seamless omnichannel fulfilment there is growing demand for well-trained specialists. Business schools also see it as a way to combat declining enrollment; enrollment in MBA programs dropped 7% last year, the fourth consecutive year the number of students enrolled in Masters programs has declined. Employers today are looking for different skill sets than they were looking for even five years ago. Today they want people with analytical and data skills and experience with artificial intelligence.

### Life at Work Trends

***The Washington Post* recently published a broad-ranging look at workplace trends.** Among those covered: bridging the growing wage gap between old and new workers, safeguarding privacy, the office phone booth and the demise of email.

**Issues with the wage gap are being traced to the fact that it is a highly competitive job market** in which companies have to offer attractive salary and benefits packages to attract talent. The issues arise when it becomes apparent to long-time employees that newer employees are making more for the same work than employees who are already with the company. Experts say that employers will need to do more to keep employees happy and ensure that people don't need to find another job to get paid what they're worth.

**Privacy issues are becoming very important to employees,** with growing concern about what employers do with the personal information employees are required to disclose, and what steps are being taken to protect and safeguard that information. Experts say that safeguarding data will become part of their marketing pitch to prospective new employees.

**The office phone booth, or privacy pod, is a small enclosed space where someone can have a private conversation** without taking up an entire meeting room designed for a larger group. *The Wall Street Journal* reported that in 2015 there was only one phone booth design on display at an industry trade show; in 2018 there were more than a dozen. The phone booth is a response to ever-shrinking offices and individual workspaces which make it difficult for employees to have private conversations without the whole office listening in.

**Perhaps the most habit-changing trend is the demise of email,** with experts predicting that 2019 will be the year that email moves past its peak in the workplace. Analysts say that companies with fewer than 200 employees don't really need email, and people are turning increasingly to messaging tools such as Slack. In addition, Microsoft is integrating a group messaging app into Office 365 that will reportedly be a game changer. Additional workplace tech tools that nudge managers or employees via texts or other alerts could eventually replace email as well. From reminding managers that an employee in a competitive field has not had a raise to urging people to use their remaining days of paid time off, artificial intelligence will assume a more integral role in day to day management as well as long-term planning.

## Shippers Push for Lighter Packaging

**Amazon and other online stores, as well as omnichannel retailers, are pushing manufacturers to reduce the size and weight of packaging** in order to cut down on shipping costs. Packaging is also being re-designed to do a better job of protecting the product from the rigors of shipping. For example, Tide is putting detergent into a cardboard box, delivering the same 96 loads of cleaning power in a container that is four pounds lighter. One of the issues seems to be convincing consumers that the product is the same; it's just the packaging that has changed. However, many consumers are demanding less packaging as well as packaging that is more eco-friendly.

## Air Cargo Capacity Building

**Online giants are busy beefing up their air cargo capacity.** Amazon added the 40th Boeing 767-300 freighter to their US network in mid-November. Amazon is planning a $1.49 billion freight hub at Cincinnati-Northern Kentucky International Airport. China's ecommerce retail giants have also been building internal air logistics and partnering with airlines for international shipments. The International Air Transport Association says that ecommerce is a future growth driver for the air cargo industry worldwide.

## Tech Predictions for 2019

**2018 was a tough year for some big tech companies.** Facebook faced a real crisis of faith as 21 major scandals caused people to lose trust in the social media giant. COO Sheryl Sandberg is stepping down, but most industry observers blame CEO Mark Zuckerberg for Facebook's ongoing blunders. Google, Microsoft and Amazon all faced revolts from their own employees over ethical lapses. YouTube's "Rewind 2018" video is already the most-disliked video in history. With iPhone sales lagging, Apple is pushing into more and more subscription services like Apple Music, iCloud for storage and AppleCare+ for repairs. 5G cellular networks have arrived but thus far have not penetrated many markets. This year AT&T and Verizon are expected to introduce them in major cities. However, the blazing-fast 5G networks are currently very neighborhood-specific, and it will be years before they are as widespread as 4G is today. According to well-regarded industry sources, Apple will wait until at least 2020 to put 5G into iPhones. Samsung is reportedly debuting a folding smartphone that unfolds like a book to reveal a 7.3" screen that is powerful enough for working, watching video and still being a pocket-sized phone. Industry observers say people can expect to pay north of $2,000 for this totally modern take on a flip-phone.

## New Home Sales in 2019

**Freddie Mac expects final numbers will show that total home sales dropped 1.6% to 6.02 million in 2018.** Freddie Mac believes sales will slowly regain momentum and increase 1% to 6 million in 2019 and 2% to 6.2 million in 2020. The growth in home sales will be entirely driven by a modest expansion in new home sales. Existing home sales are expected to remain close to current levels. Freddie Mac reports that if new home sales are going to resume growth in 2019, builders may have to shift their focus to more modestly priced homes and smaller sized homes in order to help combat the rising prices that are shutting too many buyers out of the market. However, cost pressures are already pinching profitability, so delivering for less is a real challenge. There has been some expansion in modular housing and other housing built off-site which could help make single-family housing more affordable.

**The median existing home's sale price will rise 3.1% to $266,800,** according to the National Association of Realtors. Freddie Mac expects home prices to increase 4.3% this year after zooming up 5.1% in 2018; price growth will moderate to 2.9% in 2020. Inventory is expected to increase about 7%, but most of the growth will be in the upper-end price range, while most of the demand is at the lower-end.

**The Mortgage Bankers Association (MBA) expects housing starts to increase to 1.3 million units this year,** up nearly 3.5% from 1.26 million in 2018. Realtor.com believes starts will rise a robust 8%.

## Mortgage Rate Forecast

**Most economists expect mortgage rates will continue to rise during 2019.** Housing research company Zillow projects that by the end of the year, rates will reach 5.8%. The National Association of Realtors is forecasting 5.3%. And Freddie Mac and the Mortgage Bankers Association both say the 30-year fixed-rate mortgage will average 5.1% this year. The higher rates rise, the less consumers can spend on a home in order to stay within mortgage to income guidelines of around 30%. Rising mortgage rates can also have a ripple effect, delaying home purchases and causing some homeowners to stay put and renters to give up their search for a home. Both of these outcomes ultimately reduce the number of homes on the market, creating inventory shortages and forcing people to scale down their expectations.

## Amazon Rolls Out Virtual Showroom

**Amazon quietly rolled out Amazon Showroom, a tool that lets shoppers place furniture in a virtual living rom,** making online furniture shopping more visual. Shoppers can swap out different pieces of furniture to see how they look in the virtual room, but the room itself is not very flexible. People can change the color of the walls and floor, but not pick different rooms or arrange where the furniture goes. The program does show each piece to scale and lets someone see how all the pieces will look together.

## New Year's Goals

**About half of Americans make a New Year's resolution, according to a new survey by Swagbucks.** The top goals are losing weight and saving money. More than half of those surveyed expect that they will keep their resolutions, at least for a while, with 25% anticipating they will stick with it for the whole year and a third hoping to stay on track beyond 2019. When asked if they kept the resolutions they made for 2018, 42% said yes. Of those, 74% stuck with it for at least six months and 39% made it all year. Approximately 53% of Americans make three or fewer resolutions; 29% make only one. For 25% of Americans, saving money was their top goal. A full 25% want to build up an emergency fund, 22% are saving for retirement, 21% want to save up for a vacation and 12% are saving for a house. Among the tactics employed are using a cash-back shopping site online and cutting back more on eating out and entertainment.

## Inside Sam's Club Now

**MediaPost recently took an inside look at the Sam's Club Now, a test store in Dallas, Texas**. The store is smaller than a traditional Sam's Club, at just 32,000 square feet compared to 100,000 for a typical Sam's. It stocks about 30,000 items and is targeted at a young audience; even the employees are young. There are no cashiers. The store does not accept cash, just credit cards. Payment is connected to the member's Sam's Club Now card app, which only works at the test location. The store offers sushi and to-go items near the door, along with a huge beer and wine display. Shoppers get a tablet when they come in to help them navigate. In addition, some areas of the store are interactive and price tags are digital, so they can be updated in real time. The reviewer felt the tablet was cumbersome and thought that everything should be optimized so only a phone is needed. Employees are specially trained, and the experience was likened to visiting an Apple store. Aisles were clean, uncluttered and wider than the traditional store. There was no music playing. The store is located in Lower Greenville, a part of Dallas that attracts millennials with young families. There are many townhouses and condos within easy walking distance.

## Who's Responsible When Pets Go Shopping?

**In December 2018 an African grey parrot named Rocco living in Blewbury, England started ordering goods through his owner's voice-activated Alexa device**, which was enabled to charge purchases to the owner's linked Amazon account. The African grey is renowned for its ability to mimic human speech. Rocco successfully ordered fruit, vegetables, ice cream, a kettle and a kite. Alexa does not have individual voice recognition capability, so theoretically anyone could place an order. Legally, it's complicated. Strictly speaking, the account owner is responsible for keeping their account secure. But the courts might be more lenient since the ordering was done by an animal and animals lack the capacity to enter into contracts. In any case, it would be up to the owner to prove the transaction was not legal. Recent US court decisions would indicate that the owner would probably not be held liable if a criminal placed the order, but probably would be liable if a friend or relative did the ordering.