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BOSCH

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Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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US ECONOMY

Exchange Rates Jan 30, 2020

Euro	1 Euro = $1.108	$1.00 = 0.902 Euros
Canadian Dollar	1 CAD = $0.756	$1.00 = 1.322 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 108.503 Yen
Chinese Yuan	1 Yuan = $0.144	$1.00 = 6.938 Yuan
Mexican Peso	1 Peso = $0.053	$1.00 = 18.894 Pesos

Market Watch Jan 30, 2020

DOW	28,256	-1.0%
NASDAQ	9,151	2.0%
S&P 500	3,226	-0.2%

After solid gains for most of the month, the major indexes all fell on the last day of January, as markets were rattled by the rapidly spreading deadly coronavirus. The DOW tumbled more than 600 points after China confirmed that both the number of cases and the number of fatalities were skyrocketing. The US declared the virus, which has now spread to more than 24 countries, a national health emergency, and major airlines suspended flights to China. The NASDAQ held on to a 2% gain, but the DOW dropped 1% and the S&P, the index most followed by analysts and economists, dropped 0.2%.

Consumer Spending Rises 0.3%

Consumer spending rose 0.3% in December after rising 0.4% in November, matching economists' expectations. It was the ninth consecutive monthly increase for consumer spending. Core consumer spending rose 0.1% in December after rising 0.3% in November. Personal income rose 0.2% and wages rose 0.3% after each rising 0.4% in November. Income growth lagged consumer spending, which sent savings down from $1.30 trillion in November to $1.28 trillion in December. For all of 2019, consumer spending increased 4.0% after rising 5.2% in 2018 and income increased 4.5% after jumping 5.6% in 2018. Wells Fargo expects consumer spending to moderate but not decline in 2020. Consumer spending accounts for more than two-thirds of US economic activity.

Consumer Confidence Rises to 131.6

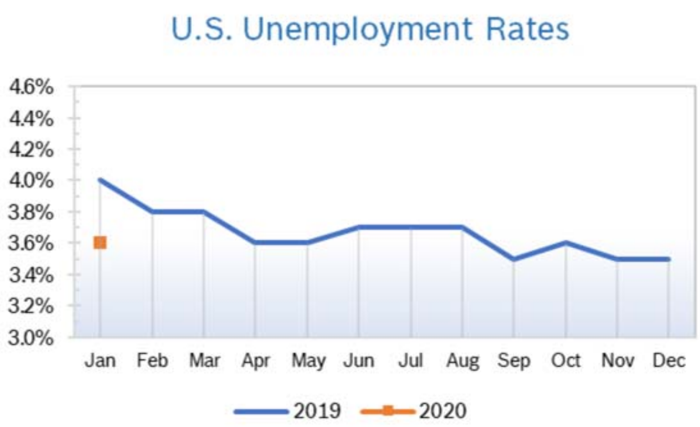
- The New York-based Conference Board's Consumer Confidence Index rose to 131.6 in January after rising to an upwardly revised 128.2 in December.*
- The Present Situation Index, which is based on consumers' assessment of current business and labor market conditions, rose to 175.3 in January after rising to 170.5 in December.
- Consumers assessment of current and future job market conditions improved but their expectations for the future declined. The Conference Board says there is little to indicate growth in 2020.

*A level of 90 indicates that the economy is on solid footing; a level of 100 or more indicates growth. Analysts caution that the real driver behind consumer spending is income growth and that labor market trends are a more accurate predictor of consumer behavior.

Consumer Prices Rise 0.2%

The Consumer Price Index (CPI) rose 0.2% in December after rising 0.3% in November. The year-over-year CPI increase rose 2.3% in December after being up 2.1% in November. The year-over-year increase was the fastest pace in eight years, but inflation remains very low. Excluding the volatile food and energy categories, core prices rose 0.1% in December after increasing 0.2% for the previous two months. Core prices were up 2.3% from a year ago. Higher gasoline prices in December and a modest increase in food prices impacted overall inflation. Although the scheduled increase in tariffs was avoided in December, tariffs on roughly two-thirds of consumer goods imported from China remain in place, but are having little impact on inflation. For the full year of 2019, gas prices rose almost 8% and rents increased 3.7%. Americans paid less in 2019 for clothes, fruits, vegetables and consumer electronics, including computers and televisions, categories where prices have been falling for years. The cost of new vehicles has been essentially unchanged for two years.

Unemployment Rises to 3.6%



- The economy added 225,000 new jobs in January, well ahead of expectations of 165,000 jobs. The unemployment rate rose to 3.6% after falling to 3.5% in December.
- Job gains for November and December were revised up by a total of 7,000 new jobs.
- Average hourly earnings rose 0.2% and have risen 3.1% over the past 12 months.
- Retail lost 8,300 jobs after a big jump in payrolls over the holidays. Construction payrolls rose by 44,000 jobs, slightly below last January's increase of 50,000 jobs.

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

Job Openings Drop

The number of job openings dropped to 6.80 million in November after rising to 7.27 million in October, according to the most recent Job Openings and Labor Turnover Survey (JOLTS) from the U.S. Bureau of Labor Statistics. The drop of 561,000 jobs was concentrated in the construction and retail sectors. It was the lowest reading since August 2015. Job openings reached a peak of 7.6 million in November 2018. The job openings rate decreased to 4.3% in November from 4.6% in October. Hiring increased to 5.82 million in November from 5.78 million in October, and the hiring rate was unchanged at 3.8%. Hires and separations were little changed at 5.8 million and 5.6 million, respectively. Within separations, the quits rate was unchanged at 2.3% and the layoffs and discharges rate was little changed at 1.1%. The quits rate is viewed by policymakers and economists as a measure of job market confidence.

Chicago PMI Falls to 42.9

The Chicago Purchasing Managers Index (Chicago PMI), tumbled to 42.9 in January after rising to 48.9 in December. Analysts had expected a much smaller decline. All five major components declined in January. New Orders fell more than 6 points to 41.5. Production fell 3.8 points to 42.7. Order Backlogs fell to a four year low of 34.6. Prices paid fell 2.1 points to 56.1. January's special question asked whether the signing of the US-Mexico-Canada trade agreement would improve their supplier lines. The majority (60%) expect no improvement at all; 40% expect little change. Looking ahead, half of respondents expect average growth for their business to be below 5%; 43.2% expect to see growth between 5% and 10%, and 6.8% project growth better than 10%.

Wholesale Prices Rise 0.1%

The Producer Price Index (PPI) rose 0.1% in December after being flat in November and was up 1.3% year over year, the smallest annual increase since 2015. Core producer prices, which exclude food and energy, were also flat in November after inching up 0.1% in October and rose just 1.1% year over year.

Q4 GDP Grows 2.1%

Q4 GDP grew 2.1%, according to the first estimate from the Commerce Department. It was the third consecutive quarter of GDP growth between 2% and 2.1%. Growth for the full year of

2019 was 2.3%, thanks to robust growth in the first quarter. The economy grew 2.9% in 2018 and more than 3% from mid-2017 through mid-2018 thanks to a big surge in capital investment. Analysts note that trade issues and tariffs were the biggest contributors to the low rate of growth. Exports contributed nothing to GDP growth in 2019. The Federal Reserve's favorite inflation indicator, the core personal consumption expenditures (PCE) price index, registered a 1.3% increase, slower than the 2.1% growth in the third quarter. Growth in the headline PCE price index picked up to 1.6% from 1.5% Full-year PCE growth weakened to 2.6% in 2019 from 3.0% in 2018.

GDP Forecast 2020

GDP is expected to grow 1.9% this year, the slowest pace of economic expansion in several years, according to a recent *Barron's* survey of market strategists. Consumers will remain the driving force of the economy thanks to low unemployment and wages that are generally growing faster than inflation.

HOUSING & CONSTRUCTION

Builder Confidence Falls to 75

Builder confidence dropped one point to 75 in January after rising five points to 76 in December, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). The HMI index charting traffic of prospective buyers increased one point to 58, the highest level since December 2017. The gauge measuring current sales conditions fell three points to 81 and the component measuring sales expectations in the next six months held steady at 79. The strong labor market, low mortgage rates and a shortage of existing homes are all fueling the housing rebound. The three-month moving average for builder confidence rose in all regions except the South, where it was unchanged.

Building Permits Fall 3.9%

Building permits fell 3.9% in December to a seasonally adjusted annual rate of 1.42 million after rising to 1.48 million units in November. **Single-family permits fell 0.5%** to 916,000 annual units after rising to 918,000 units in November. Multifamily permits fell 9.6% to 500,000 annual units. Permits rose in all regions on a year-to-date basis.

Housing Starts Rise 16.9%

Housing starts rose 16.9% in December to a seasonally adjusted annual rate of 1.61 million units after rising to 1.37 million units in November. It was the highest level of starts in 13 years. **Single-family starts increased 11.2%** to 1.06 annual units after rising to 938,000 units in November. Multifamily starts rose 29.8% to 553,000 units after rising to 427,000 units in November. Total housing starts for 2019 were 1.29 million, a 3.2% gain over the 1.25 million starts in 2018. Single-family starts rose 1.4% in 2019 to 888,200 annual units. Multifamily starts in 2019 rose 7.3% to 401,600 units. Regional housing starts were mixed.

New-Home Sales Fall 0.4%

New-home sales fell 0.4% in December to a seasonally adjusted annual level of 694,000 new homes after rising to a downwardly revised 697,000 units in November. It was the first time in five months new home sales have fallen below 700,000 units. For the full year of 2019, new home sales rose 10.3% to a total of 681,000 units. The inventory of new homes for sale is a 5.7-months' supply at the current sales pace, up from 5.4 months in November. Supplies are now at a level NAHB describes as "comfortable." Approximately 78,000 homes are completed and ready to occupy; the remainder are in various stages of completion. The median sales price rose to $331,400 in December after rising to $330,800 in November. Regional new home sales year to date were mixed. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

Existing Home Sales Rise 3.6%

Existing home sales rose 3.6% in December to a seasonally adjusted annual rate of 5.4 million homes after falling to 5.35 million in November. Existing home sales were up 10.8% from December 2019. The median home price rose 7.8% from December 2019 to $272,500, marking 94 consecutive months of year-over-year gains. Total housing inventory at the end of November fell 14.6% to 1.40 million units and was down 8.5% from December 2018. Unsold inventory was at just a 3.0-months' supply at the current sales pace, down from a 3.7-months' supply in both November and in December 2018. Unsold inventory totals have declined for six consecutive months. Regional existing homes sales were mixed.

Remodeling Index Rises to 58

NAHB's remodeling index (RMI) rose three points to 58 in the fourth quarter. The RMI has been consistently above 50, the level that indicates that more remodelers report market activity is higher compared to the prior quarter than report it is lower, since the second quarter of 2013. NAHB says the low inventory of homes is forcing many people to stay put and remodel their existing home instead of trying to move. The current market conditions indicators increased two points from the previous quarter to 56. Among its three major components, major additions and alterations gained four points to 56, minor additions and alterations increased by one point to 54 and the home maintenance and repair component rose one point to 58. The future market indicators gained three points from the previous quarter to 60. Among its components, calls for bids increased by three to 58, amount of work committed for the next three months gained three points to 57, the backlog of remodeling jobs jumped five points to 64 and appointments for proposals increased by two points to 62. The jump in backlogs is an indicator that demand is high and labor is in short supply. NAHB predicts that remodeling spending for owner-occupied single-family homes will decrease 0.6% in 2020 and increase 1.2% in 2020.

Housing Forecast

NAHB projects that total housing starts will rise more than 2% to 1.3 million units in 2020, the highest output since 2007 but well below normal production levels of 1.5 million units annually from 1960-2007.

Single-family starts are expected to rise more than 3% to about 920,000 units, still significantly below the 1 million to 1.1 million units that demographics would support. NAHB expects multifamily starts to hold relatively steady this year at 383,000 units. Currently, 93% of all multifamily units are built for rent; only 7% are constructed for sale. The historical split is 80-20.

New-home sales are projected to rise 2.5% to a total 708,000 in 2020. If that happens, it would mark the first year sales surpassed 700,000 since 2007.

Residential remodeling activity is expected to register a 1% gain this year over 2019, as existing home sales improve.

Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence	62 (+1)	76 (N/C)	66 (+3)	84 (+1)
Building Permits	+13.4%	+5.1%	+0.1%	+0.1%
Housing Starts	+3.0%	+8.6%	-0.8%	-4.7%
New Home Sales	-11.8%	-15.4%	+10.1%	+31.0%
Existing Home Sales	+5.7%	+5.4%	-1.5%	+4.6%

Mortgage Rates Fall to 3.51%

- A 30-year fixed-rate mortgage (FRM) fell to 3.51% at the end of January after rising to 3.74% at the end of December Mortgage rates were 4.46% at the end of January 2019.
- Freddie Mac expects rates to average 4.8% in 2020.
- Rates were at their second lowest level in three years. Low mortgage rates have caused a corresponding increase in applications for mortgages and refinancing.

POWER TOOL INDUSTRY

Stanley Black & Decker

Q4 sales rose 2% to $3.71 billion and **full year sales rose 3.3%** to $14.44 billion. Profits rebounded, with SB&D posting $199.1 million in profits compared to a $106 million loss in Q4 2018. Organic growth was 2% despite $445 million in pressure from external headwinds. For the full year they delivered 3% total revenue growth and 3% organic growth.

Q4 Conference Call with Analysts:

Tools & Storage delivered 1% total revenue growth, with 2% organic growth and a 1% headwind from currency. Price was modestly positive for the fourth quarter, but slightly below their expectations. North America was up 3% organically. US retail continued to see strong momentum with mid single-digit growth for the quarter.

North America's growth continued to be fueled by brand rollouts, including Craftsman and new product innovations, such as the DeWalt FlexVolt, Atomic and Xtreme. Sell through was robust, with the fourth quarter delivering double-digit POS for Retail.

Hand Tools, Accessories and Storage declined 3% due to customer inventory corrections and the shift to more promotional items such as power tools. In addition, the Craftsman comps are getting more difficult, which will temporarily pressure organic growth.

Total tariff and currency headwinds for the fourth quarter were $85 million, with 95% impacting Tools & Storage. The unfavorable product mix was caused by reduced levels of hand tools, accessories and storage revenue versus the prior year combined with increased promotional activities in the power tools SBU. Holiday promotions were very intense in power tools, which resulted in a higher promotional level than anticipated.

They began to normalize inventory levels within the quarter following the completion of the Craftsman rollout and other various brand transitions. That resulted in very strong cash flow but lower production volumes created a non-recurring P&L headwind they couldn't overcome.

For 2020 they expect approximately 3% organic growth. Their tariff assumptions are based on the recently announced deal, with list 4A at 7.5% beginning in mid-February and lists one, two and three remaining at 25%.

They expect Craftsman to deliver about 2 points of growth within Tools & Storage, but the first quarter is a very tough comparison, due to the load-in that began in Q1 2019. Organic growth for Tools & Storage is expected to be in the mid-single-digits in 2020.

Other News:

Jaime Ramirez will become EVP and president of the Tools & Storage business July 1. Current president Jeffrey Ansell will assume responsibilities for a strategic initiative to revitalize the Black & Decker brand. Ansell joined SB&D in 1999; Ramirez has been with the company since 1991.

During Ansell's tenure with the company the tools business unit grew from a $600 million hand tool business to a $10.1 billion industry leader. According to CEO Jim Loree, Jeff wanted to step back from his executive responsibilities and take on a less intensive role with the organization. Loree said that despite Ansell being an extremely valuable and integral part of the team, they were supportive of his desire to spend more time with his family and on personal endeavors. He will assume responsibility for revitalizing the Black & Decker brand through 2021 then stay on as a strategic advisor to the company through the end of 2023.

Ramirez was described as a champion of innovation, technology and digital transformation with a socially responsible approach. Loree says they are confident he will bring his transformative focus and his passion for the business and take Tools & Storage into the future.

Revitalizing the Black & Decker brand has been on the list for a long time. They feel that it is a remarkable and iconic brand and presents and opportunity to unlock some great value. They believe Jeff Ansell is the right person to make that happen, but are not ready yet to share much of their plans.

The Black & Decker brand has not grown as much as other brands. They had growth of 70% in the Stanley brand, 9% with Lenox and 10% with Irwin since they acquired them, and more than 250% in DeWalt and 500% in Craftsman. Black & Decker is also at its largest size in history, but it's only grown about 3% in that same time frame. So they believe there is a real opportunity to grow that brand.

Their China supply chain mitigation strategies include moving production to other countries as well as building their own Craftsman plant in Fort Worth, Texas.

SB&D acquired Boeing supplier CAM for a reported $1.5 billion. Consolidated Aerospace Manufacturing makes fasteners and other components for the industry. SB&D outbid private equity firms in an auction. About $200 million of the purchase price is contingent on the 737 MAX being authorized to return to service and Boeing achieving certain production levels, according to SB&D. When adjusted for about $185 million of expected cash tax benefits, the net transaction value is between $1.1 and $1.3 billion. The deal would help SB&D boost their engineered fastening and infrastructure business and diversify their industrial business. CAM was described as a high-growth, high-margin business.

SB&D closed on their acquisition of IES Attachments, a leading provider of off-highway specialized attachments for prime moving equipment, doing business under the Paladin and Pengo brand names. The transaction almost triples the size of their infrastructure business unit and diversifies them in the industrial markets.

TTI/Techtronic Industries

The coronavirus outbreak in Wuhan, China is expected to have minimal impact on TTI, according to a note Citi Research sent to investors. TTI has one factory in Dongguan, which is far away from Wuhan. TTI expects that their new factory in Vietnam will account for about 20% of total output by the end of the year, which will further insulate them from the effects of the virus as well as minimize the impact of trade tensions between the US and China.

RETAIL

Retail Sales Rise 0.3%

Retail sales rose 0.3% in December after rising an upwardly revised 0.4% in November and were up 5.8% from December 2018. Sales increased in 12 out of 13 major categories. Core retail sales, which exclude food services, car dealers, gasoline stations and building materials stores, rose 0.5% after being basically flat in November. Core retail sales correspond most closely with the consumer spending component of GDP. For all of 2019, retail sales increased 3.6%, down from an almost 5% increase in 2018. The big jump in 2018 was attributed to a boost from tax cuts.

Holiday Retail Sales Rise 4.1%

Holiday retail sales in 2019 grew 4.1% over the same period in 2018 to $730.2 billion, according to the National Retail Federation (NRF). Online and other non-store sales were up 14.6% to $167.8 billion and are included in the overall total. The numbers exclude automobile dealers, gasoline stations and restaurants. Building materials and garden supply stores were up 1%. The increase met NRF expectations for 3.8% and 4.2% growth and was nearly twice the 2.1% increase for holiday 2018. Retail sales in December 2019 alone increased 0.5% seasonally adjusted over November and were up 6.7% unadjusted year over year. Retail sales excluding automobiles rose 3.4% between November 1 and December 24, according to Mastercard SpendingPulse.

The Home Depot

The Home Depot paid just under $28 million for the six-story Paces Summit office development in the Vinings area near company headquarters just northwest of Atlanta. The Home Depot already has more than 6,500 employees at headquarters.

Lowe's

Lowe's plans to hire more than 50,000 full-time, part-time and seasonal workers for more than 1,700 stores this spring. They plan to hold hiring events over the next three months. Spring is the busiest season for home improvement projects, and Lowe's wants to be sure they have knowledgeable people in place to better serve customers and operate more efficiently.

Lowe's hired Taco Bell's CBO Marisa Thalberg as their new Chief Brand and Marketing Officer. She will start mid-February and report directly to CEO Marvin Ellison. It's a new position for Lowe's, and one that Ellison believes needed to be created.

Lowe's CIO Seemantini Godbole spoke at the National Retail Federation's conference in January, touting the benefits of developing the technologies that are core to their processes rather than relying on third-party solutions. Lowe's has been developing more of their own applications and website features. Bringing these functions in-house leads to much faster development cycles and a more agile company, according to Godbole.

Walmart

Walmart unveiled a new automated system that picks and packs online grocery orders at high speed. The system, called Alphabot, operates in a 20,000-square-foot facility attached to a Walmart store in Salem, New Hampshire. They plan to build similar facilities in Mustang, Oklahoma and Burbank, California later this year. Automated grocery systems are estimated to pick and pack orders as much as 10 times faster than a human. The greater speed would enable Walmart to rapidly expand their capacity to process online orders. When customers arrive to pick up orders, their groceries are bagged and ready to go and workers can retrieve them from one of several stations attached to the shelving system. For now, Walmart workers will continue to pick and pack fresh produce, although Walmart is exploring systems that could automate that process.

Walmart plans to bring inventory-scanning robots from Bossa Nova Robotics to another 650 stores by this summer. The 6 foot tall robots are currently deployed in about 350 Walmart stores. The robots, which move autonomously around the store, use cameras to scan shelves and detect out-of-stock items and check for pricing accuracy. The 650 additional robots will be serviced by Bossa Nova partner NCR Corp., according to The Robot Report.

Walmart launched their Walmart Advertising Partners program to expand advertisers' direct access to Sponsored Products campaigns. Walmart has hired several executives with engineering level experience to support brands that include Kellogg and Hershey. A recent survey by media group Kenshoo estimated that 90% of Americans buy something from Walmart every year, with nearly 160 million visitors visiting the website and/or stores weekly.

Ace Hardware

Ace vaulted into the top ten in *Entrepreneur's* 2020 Annual Franchise 500 ranking, moving up 7 spots from No.13 to No.6. Ace was also once again named No.1 in their category. Key factors in the evaluation include costs and fees, size and growth, support, brand strength and financial strength and stability.

Michael Magee is the new President and General Manager of Emery Jensen Distribution, a division of Ace Wholesale Holdings. Magee will report to Ace Hardware's Chief Merchandising and Sales Officer, John Surane. Magee will be responsible for growing the wholesale business. His past experience includes Crayola, Newell Brands, Jarden, Sara Lee and more.

W.W. Grainger

Sales for 2019 increased 2.5% to $11.5 billion, with currency subtracting 0.5% from growth. Volume grew 2.5% for the full year and 3.5% for the fourth quarter. Q4 sales rose 3% to $2.8 billion. There was no impact from foreign currency in the fourth quarter.

Amazon

Q4 sales rose to $87.4 billion, exceeding forecasts. North American sales were up 22% to $53.6 billion, while international sales grew 14% to $23.8 billion. Full year sales rose 20.5% to $280.5 billion. CFO Brian Olsavsky said that spending on the one-day shipping costs was less than the $1.5 billion previously expected. Nevertheless, shipping costs for the fourth quarter rose 43% to nearly $12.9 billion. Amazon expects first quarter sales growth of 16% to 22%, between $69 billion and $73 billion.

Amazon also released the actual number of Amazon Prime customers, who pay $119 annually for unlimited shipping, media services and other discounts and perks. When CEO Jeff Bezos last commented on the number of customers back in April 2018, 100 million people were subscribed to the program. As of the end of the quarter, there were more than 150 million paying members of Amazon Prime.

Amazon staff grew 23% in 2019, to 798,000 people. Sales rose 34% to $10 billion for Amazon Web Services (AWS). Much of the hiring was related to the move to faster shipping speeds. Amazon is also continuing to add software engineers in the AWS and Alexa businesses, as well as in sales and marketing and operations.

For all of 2019, Amazon sales grew 20% to $280.5 billion, not including a $2.6 billion negative impact from foreign exchange rates.

Amazon ended their temporary ban on FedEx ground shipments for third-party sellers, reportedly because FedEx is now meeting Amazon's on-time delivery requirements. More than half the items on Amazon come from third-party sellers who do business on Amazon's online marketplace.

Amazon will provide law enforcement with more data on counterfeit goods as part of efforts to crackdown further on fakes listed for sale on Amazon. The presence of fake merchandise has created real problems for big brands, and some have declined to sell on Amazon. Amazon will now disclose merchant info to European and US federal authorities every time they confirm a counterfeit was sold to a customer.

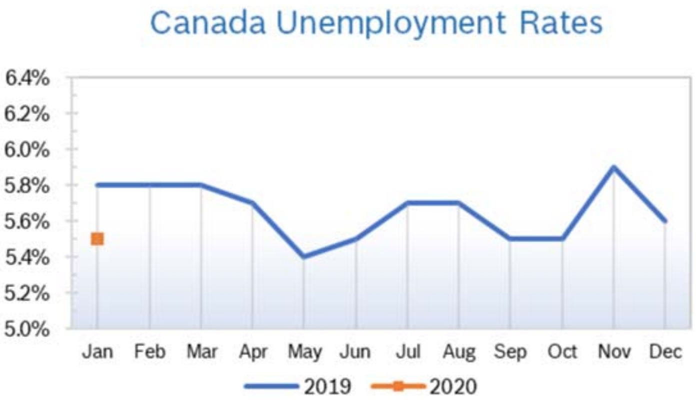
Amazon is willing to invest billions of dollars to prevent the sale of counterfeit goods, according to Amazon Consumer Chief Jeff Wilke, who was addressing the WSJ Tech Live conference. Wilke said Amazon's business depends on customers trusting the company; last year they spent $400 million on technology and a staff of 5,000 people tasked with tracking counterfeit and unsafe items.

Amazon has built a fleet of 30,000 last-mile delivery trucks and vans since creating their own delivery network in 2018, and currently handles about half of their deliveries. Amazon is investing so much in growing their fleet they are creating a business boom for automakers.

Amazon is reportedly considering opening stores in Germany, their second-largest market after the US. The report came from German newspaper *Welt am Sonntag,* which interviewed German ecommerce chief Ralf Kleber. Amazon also wants to promote shopping via Alexa-controlled devices and was selling Echo Dots at big savings.

Amazon is reportedly working on a method to replace credit cards with human hands using advanced biometrics. Customers would connect their credit card information to their palms and would be able to make purchases by tapping their palm.

CANADA SNAPSHOT



Unemployment Falls to 5.5%

- Canada's unemployment rate fell to 5.5% in January from 5.6% in December and the economy added 35,000 new jobs.
- Since January 2019 the economy has added 268,000 new jobs, an increase of 1.4%. Most job gains have been in full-time employment.
- Employment in January rose in Quebec, Manitoba and New Brunswick and dropped in Alberta. Employment was little changed in other provinces.
- The construction sector added jobs in January.

Consumer Confidence Rises to 112.0

The Index of Consumer Confidence rose 12 points in January to 114.0, the highest level since August 2019, according to the Conference Board of Canada. The monthly Index of Consumer Confidence is constructed from responses to four attitudinal questions posed to a random sample of Canadian households.

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Invented for life

Consumer Prices Rise 2.2%

The Consumer Price Index (CPI) rose 2.2% year over year in December after rising 2.2% in November, according to Statistics Canada. Excluding gasoline, the index was up 2.0% year over year. On a seasonally adjusted annual basis the index rose 0.4% in December after rising 0.1% in November. Prices were up on a year-over-year basis in five provinces. Fuel and energy prices increased in all provinces.

GDP Rises 0.1%

GDP edged up 0.1% in November after falling in October, according to Statistics Canada. Increases in 15 of 20 industrial sectors more than offset notable declines in the mining, quarrying and oil and gas extraction and transportation and warehousing sectors, influenced partly by disruptions in rail transportation service and crude oil pipeline transportation. Goods-producing industries rose 0.1% after falling in September and October, while services-producing industries also edged up 0.1%. After three months of stagnation the construction sector was up 0.5% in November, with growth in all subsectors. Residential construction rose 0.6% due to strength in alterations and improvements and apartment construction. Non-residential construction grew 0.4% because of a rise in the commercial sector. Both repair construction and engineering and other construction activities increased 0.4%. After a widespread 1.1% decline in October, retail trade increased 0.5% in November with gains in 5 of 12 subsectors. Building materials, garden equipment and supplies stores grew 2.7%, the first increase in four months. On a three-month rolling average basis, GDP was up 0.1% after increasing 0.2% in October.

Interest Rates Unchanged at 1.75%

The Bank of Canada (BOC) left its key interest rate unchanged at 1.75% in January and cut estimates for near-term growth, leaving the door open to a future interest rate cut if the economy needs a boost. The decision was widely expected. A decline in exports and business investment and job creation plus a drop in residential investment figured into the decision. Economists said the tone of the bank's remarks indicates they are more concerned than they were last year that there may be a need to cut rates. They downgraded their fourth-quarter growth forecast to 0.3% on an annualized basis and dropped their forecast for GDP growth by about three-quarters of a point, to 1.3% in the first quarter.

Bank of Canada Surveys

Consumers and businesses remain confident, according to the most recent quarterly surveys from the Bank of Canada.

Their Business Outlook Survey suggests that business demand is growing with companies reporting rising pressures in production capacity and labour shortages in much of the country, with the exception of the Prairies.

The bank published their Canadian Survey of Consumer Expectations for the first time, which showed that consumers remain upbeat about spending plans this year despite a mixed outlook for employment and modest wage growth expectations. Consumers expect home prices to accelerate. More companies expect to increase staff this year and expect sales to grow at a more robust pace.

Housing and Construction News

Housing starts slowed during the last quarter of 2019, falling 3% in December to a seasonally adjusted annual rate of 197,329, driven largely by a decline in new construction of condos and apartments in Toronto, Ottawa and Montreal, according to Canada Mortgage and Housing Corp (CMHC).

CMHC forecasts a rebound in housing starts this year to as high as 204,300 units across the country, due to population growth, rising incomes and strong employment in British Columbia and Ontario. CMHC is forecasting a rise in housing starts in Ontario, B.C., Alberta, Saskatchewan and Manitoba, but slower activity in Quebec and Atlantic Canada due to fewer people forming households.

Canada's home sales fell 0.9% in December but were up 22.7% compared to December 2018, according to the Canadian Real Estate Association (CREA). The decline ended a streak of monthly gains that began last March. The national average price for a home sold in December 2019 was $517,000, up 9.6% compared to December 2018. Excluding the Greater Vancouver and Greater Toronto areas, two of the country's most active and expensive housing markets, the average price of a home sold was about $400,000, up 6.7% compared to December 2018. Inventory was at the lowest point since the summer of 2007, with 4.2 months of inventory based on the current sales pace, well below the long-term average of 5.3 months.

CREA expects home sales to rise 8.9% in 2020 to 530,000 units and forecasts the average price will rise 6.2% to $531,000. They expect sales will benefit from job growth and population gains and also get a modest boost from government programs for first-time home buyers.

Retail Sales Rise 0.9%

Retail sales rose 0.9% in November to $55 billion after dropping 1.1% to $50.9 billion in October. The increase was primarily due to higher sales at motor vehicle and parts dealers and food and beverage stores. Higher sales were reported in 6 of 11 subsectors, representing 70% of retail trade. After removing the effects of price changes, retail sales in volume terms rose 0.7%. Sales at building material and garden equipment and supplies dealers rose 2.1%, the first increase in the category in the last five months. Sales were up in six provinces and all census metropolitan areas. Retail sales continued on a downward trend in Alberta. On an unadjusted basis, retail ecommerce sales were $2.4 billion in November, accounting for 4.4% of total retail trade and were up 6.6% year over year, while total unadjusted retail sales were up 2.2%.

Retail Notes

Canada is partnering with Canadian Tire to build 54 electric vehicle fast chargers at Canadian Tire locations across central and western Canada. The $2.7-million program is designed to encourage people to use electric and alternative fuel vehicles.

Anthony Hurst, the head of Lowe's Western region, will become the new president of Lowe's Canadian operations in mid-February. He becomes the first permanent country president since Sylvain Prudhomme retired last year. Hurst has 25 years of retail and home improvement experience, including Home Depot. Lowe's has more than 26,000 employees in Canada.

MARKET TRENDS

Home Building: The Decade in Review

NAHB did an in-depth analysis of housing activity over the past decade.

The Great Recession drove many home builders out of business and drove many construction workers out of the industry. The construction sector suffered a net loss of 1.5 million jobs between 2005 and 2010, and hit a low point in 2011. Since then, employment in the industry has gradually increased with nearly 940,000 net new jobs being created.

As the recovery got underway, production was unable to meet demand, creating a housing shortage and inflating prices. Between 2010 and the end of 2019, there were a total of 6.8 million single-family housing starts. That total included 1.53 million single-family detached homes, 827,000 townhouses and 300,000 single-family homes built to be rented.

The South and West accounted for nearly three-quarters of all single-family starts, with 54% occurring in the South and 23% occurring in the West. The Midwest and Northeast accounted for 15% and 8% of starts, respectively.

Housing starts were fairly steady from the 1960s through the 2000s, hovering between about 42,000 and 48,000, with the exception of the 1970s, when starts averaged 53,138, measured in terms of starts per million people, averaged over the decade. In the 2010s, a decade which saw the US population grow by more than 20 million people, starts fell by nearly 50%, to an average of 21,288 per million people.

Remodeling activity expanded during the decade, although it slowed recently due to the decline in existing home sales. About 150 million remodeling projects occurred over the decade and total spending on existing, owner-occupied homes was more than $1.5 trillion.

The homeownership rate fell during the first half of the 2010s, dropping from 67.1% to a post-recession low of 62.9% in 2016. But ownership rebounded during the second half, and stood at 64.8% by the third quarter of 2019.

There was some speculation that members of younger gen-

erations didn't aspire to own their own home, but surveys continue to show that is not the case; rather student debt has delayed independence for many and slowed household formation.

For much of the past decade, low mortgage rates have supported home buyers. While there have been some increases, rates have not crested 5% in more than a decade. The Fed abandoned plans to raise rates in 2019 and instead cut rates three times, and is now widely considered to be on hold until circumstances dictate otherwise.

There is now a critical supply-side shortage, due to years of population and household formation growth and reduced levels of home building. Home inventory fell to just a 3.6-month supply in November 2019, compared to the 6-month supply that has always been considered the benchmark.

NAHB refers to this complex set of limiting factors as the Five Ls: lack of labor, lots/land, lumber/materials, lending for builders and laws/regulatory burdens that add costs.

Entry level single-family detached homes are in short supply. In 2010, 91% of new single-family homes were less than 2,400 square feet. In 2018 just 74% of homes being built were less than 2,400 square feet. So the supply of entry-level single-family homes fell by 17% in less than a decade.

NAHB says there are no quick fixes. The industry's infrastructure needs to be rebuilt, including labor force and reliable sources of lending and building materials. Policy changes are needed as well. Communities need to reduce the cost of construction by fighting increases in fees and building with higher density where market demand supports it.

Operational solutions such as modular and panelized construction, single-family built for rent and tear-down construction that makes room for new homes all offer promises, but represent very small percentages of the overall market.

Who will buy new homes? NAHB estimates that about half of newly-built homes in the 2020s will be built for the generally overlooked latchkey kids of GenX, who will reach their peak earning years. The 65.8 million members of GenX were born between 1965 and 1981.

Construction Industry Boosts Salaries

Base salaries for construction jobs are jumping. A new compensation analysis by FMI shows that while the average base salary in construction has increased by 21% across the nation's top 10 metro areas over the past year, some markets have seen compensation for critical operations skills, such as project manager and superintendent, jump as much as 50%, according to a recent story in ENR. FMI says that there is a real war for talent going on, driven by the exit of so many workers during the Great Recession and complicated by the ongoing wave of Baby Boomers who are now retiring. The proliferation of larger and more complex projects in many markets is also playing a role, as these projects demand people who are more skilled, better trained and usually more technologically savvy. Recruiters say that it's going to be a seller's market for the foreseeable future, so companies need to make themselves attractive and competitive. It's not all about money; other incentives may help gain or retain staff without putting the salary structure out of whack. Appealing benefits range from flexible schedules work from home days and advanced training to company contributions towards repaying student loans in lieu of a retirement fund or oversized salary.

America's Most Trusted Brands

The most trusted brand in America isn't Amazon, it's the United States Postal Service, according to rankings compiled by Morning Consult. They interviewed thousands of people about 2,000 different brands to come up with their list of the brands consumers believe will "do the right thing." Amazon was number two, followed by Google, PayPal and the Weather Channel. No retailers made it into the top ten.

World's Most Influential Brands

Google beat out Amazon to top the 2019 list of the World's 500 Most Influential Brands. Amazon dropped to the number two spot, and Microsoft came in third. This is the 16th consecutive year the rankings have been compiled. The list includes brands from 29 countries, with the US representing 208 out of the top 500, making it the brand superpower. World Brand Lab has tracked more than 80,000 major brands in 60 countries since 2013 and is chaired by 1999 Nobel laureate Professor Robert Mundell.

Slowest Population Growth in a Century

The US added 1.5 million people between 2018 and 2019, a population growth rate of about one-half percent, leaving the population at 328 million. That's the lowest growth rate in the US since 1917 to 1918, when the nation was involved in World War I. For the first time in decades the number of births minus the number of deaths was less than 1 million in the US. International migration to the US dropped from as many as 1 million immigrants in 2016 to 595,000 people from 2018 to 2019. Immigration restrictions combined with the perception that there are fewer opportunities in the US than there used to be contributed to the decline. Regionally, the South saw the greatest growth, increasing 0.8% due to both natural increase and people moving from other parts of the country. Population in the Northeast declined for the first time in ten years, dropping 0.1%, due primarily to people moving away. The upcoming census is expected to affect the number of seats many states have in the House of Representatives, with California, Alabama, Illinois, Michigan, Minnesota, New York, Ohio, Pennsylvania, Rhode Island and West Virginia expected to each lose a seat, and states including Texas, Florida, Arizona, Colorado, Montana, North Carolina and Oregon likely to gain at least one seat.

The Value of Physical Stores

The pendulum is swinging back from "digital is the future" to recognize that physical stores offer many advantages that an online storefront cannot match, according to a feature story in *Chain Store Age* (CSA), reporting from the January National Retail Federation 2020 Vision Conference. The cost of distribution and fulfillment is much lower in-store than online, thanks to bulk shipments and the fact that customers take their purchases with them. Well-trained associates can offer customers much more than the most powerful AI-powered robot: advice, ideas and personal interaction and involvement. For many people, nothing compares to actually seeing and touching products for themselves; CSA says that purchases made in store have a much lower return rate.

According to CSA, "the most successful retailers operate physical stores in tandem with their digital offerings. Brick-and-mortar stores can serve as cost-lowering pickup or fulfillment hubs for online orders. Associates equipped with customers' digital browsing and order history can offer personalization beyond any previously attainable level. And as a branding and promotional tool, physical stores offer enormous qualitative benefits beyond hard ROI figures."

Some retailers are betting on their physical stores alone. Big Box giant Costco enjoyed robust sales throughout the holiday season without an order online, pick up in store (BOPIS) option. In fact, Costco has actually reduced their spending on ecommerce and instead is encouraging shoppers to come into the stores. According to Costco, they study what others are doing, but have no plans to introduce BOPIS any time soon.

Target says it is very important to integrate digital and in-store experiences, that's why they are investing heavily in both their store assets and in the experience their team provides customers, referred to as "guests" by Target.