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US ECONOMY

Exchange Rates December 31, 2018

Euro	1 Euro = \$1.146	\$1.00 = 0.873 Euros
Canadian Dollar	1 CAD = \$0.740	\$1.00 = 1.364 CAD
Japanese Yen	1 Yen = \$0.009	\$1.00 = 109.714 Yen
Chinese Yuan	1 Yuan = \$0.145	\$1.00 = 6.878 Yuan
Mexican Peso	1 Peso = \$0.051	\$1.00 = 19.642 Pesos

Market Watch December 31, 2018

DOW	23,327	- 5.6% Full Year
NASDAQ	6,635	- 3.9% Full Year
S&P 500	2,506	-6.2% Full Year

Major market volatility continued in December; instead of a Santa Claus rally, the markets all experienced a visit from the Grinch. All three major indexes finished the month of December as well as the year in the red. The S&P was down 6.2% for the year and the DOW dropped 5.6%, the biggest annual losses for both indexes since 2008, when they plunged 38.5% and 33.8%, respectively. The NASDAQ lost 3.9% in 2018, its worst year in a decade; it dropped 40% in 2008. For the fourth quarter, the DOW fell 12%, the S&P dropped 14%, the NASDAQ fell 17.5%. The “Christmas Eve Crash” that sent the DOW down 653 points came on the heels of phone calls from Treasury Secretary Steven Mnuchin to US banks; the unusual calls spooked investors and triggered a big sell-off. The DOW rallied December 26 and gained 1,086 points, its biggest one-day point gain in history, then dropped 400 points the next day. Market analysts are expecting markets to rally sometime during the first quarter provided as long as the government reopens, there is progress on trade issues and there are no big negative surprises.

Consumer Confidence Falls to 128.1

The New York-based Conference Board’s Consumer Confidence Index fell to 128.1 in December after dropping to 135.7 in November, according to the Conference Board’s latest survey. The second consecutive monthly decline was most likely due to choppy and unpredictable financial markets and economic uncertainty both globally and at home. The Present Situation Index, which is based on consumers’ assessment of cur-

rent business and labor market conditions, declined from 172.7 to 171.6. The Expectations Index, which is based on consumers’ short-term outlook for income, business and labor market conditions, fell from 112.3 in November to 99.1 in December. Despite the decline, confidence remains historically high, and analysts expect it to remain so during the coming year. 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 Rises 0.4%

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 Unchanged

The Consumer Price Index (CPI) was unchanged in November after rising 0.3% in October. The CPI rose 2.2% over the past twelve months, down from a 2.5% annual increase in October. Core inflation, which excludes food and energy, rose 0.2% in November after rising by the same percentage in October and was up 2.2% from November 2017 after being up 2.1% year over year in October. Gasoline prices fell 4.2% in November, although healthcare, food and owners’ equivalent rent all went up.

Unemployment Rises to 3.9%

The unemployment rate rose to 3.9% in December from 3.7% in November and the economy added a very robust 312,000 new jobs, well ahead of expectations of 190,000 new jobs. In addition, job gains for November were revised higher by 58,000 jobs. The rise in the unemployment rate was credited to more people entering the workforce and more people quitting their jobs. Construction payrolls rose by 38,000 after being unchanged in November. Manufacturing added 32,000 new jobs. Rising wages and weakening inflation increase real buying pow-

er and pull more people into the workforce. A total of 2.4 million new jobs were created in 2018 and wages rose 3.2% for the year. 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 Rise 0.8%

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 non-defense 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 65.4

The Chicago Purchasing Managers' Index (PMI) fell one point to 65.4 in December after jumping eight points to an 11-month high of 66.4 in November. Three of the five components dropped for the month, but solid gains in Production and Order Backlogs held the decline in the Index to a minimum. It was the 34th consecutive month the PMI was above 50, the level that indicates growth. Inflationary pressures continued to ease, with Prices Paid falling for the fifth consecutive month, and prices for steel and wood dropping. A vast majority of those surveyed about business growth for 2019 believed their business would expand, with 46.8% believing expansion would be below 5% and an equal percentage believing expansion would be between 5% and 10%. The remaining respondents believed their business would grow more than 10%. Virtually no one thought their business would decline in 2019. Shortages and tariffs continue to be a concern.

Wholesale Prices Rise 0.1%

The Producer Price Index (PPI) rose just 0.1% in November after rising 0.6% in October. The PPI was up 2.5% from November 2017. Core producer prices, which exclude food, energy and trade services, rose 0.3% in November after rising 0.2% in October and were up 2.7% from November 2017. Economists noted that the modest increase suggested that pipeline inflationary pressures were moderating, meaning there would be little

risk of core consumer price inflation rising further over the next year or so. In the summer the 12-month rate had hit a seven-year high of 3.4%, fueling worries about inflation. The price of raw materials is now 0.7% lower than it was one year ago. However, it is possible that prices will rise if new tariffs go into place.

Q3 GDP Growth Slows to 3.4%

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 2.3% 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 Rise

The number of job openings rose by 119,000 to 7.1 million in October after dropping to a downwardly revised 6.96 million in September, according to the Job Openings and Labor Turnover Survey (JOLTS). That lifted the job opening rate to 4.5% from 4.4% in September. In October hires edged up to 5.9 million, matching August's high. Separations were little changed at 5.6 million. Within separations, the quits rate was little changed at 2.3% and the layoffs and discharges rate was unchanged at 1.1%. Hires have outpaced separations every month since August 2010. With 7 million job openings and only 6 million unemployed workers the job market is tight and employers have fewer options. The worker shortage appears to be more pronounced in the Midwest and Northeast. The JOLTS report is one of the Fed's preferred economic indicators.

Fed Raises Rates 0.25%

The Fed raised interest rates 0.25% to a range of 2.25% to 2.5% at its regular meeting in mid-December after leaving them unchanged in November. The Fed forecast fewer rate hikes during 2019 than previously estimated. The Fed also slightly lowered its forecasts for real GDP growth in 2018 and 2019 to 3.0% and 2.3% respectively, from 3.1% and 2.5% previously forecast. Fed Chairman Jerome Powell has promised to hold a press conference after all Fed meetings beginning in January 2019.

Government Shutdown

The US government partially shutdown at midnight on December 22, 2018. Some essential work, like mail delivery and law enforcement, is still being performed, but the shutdown has affected the operations of nine departments, including Homeland Security, Justice, State, Interior and Treasury, and several agencies, including the Environmental Protection Agency and NASA. Most of the work of the I.R.S. has stopped, with only 12% of the agency's 80,000 employees working. All in all, about 800,000 government workers are feeling the effects. Less than half are on unpaid leave, while more than half are working without pay.

HOUSING & CONSTRUCTION

Housing Starts Rise 3.2%

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 Rise 5%

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 Unavailable

New Home sales for November were unavailable due to the

government shutdown that began at midnight December 22, 2018. The most recent information is for the month of October. Sales of newly built, single-family homes fell 8.9% in October to a seasonally adjusted annual rate of 544,000 units, the lowest pace of sales since December 2016. However, sales numbers for the previous three months were revised up, and sales were up 2.8% from October 2017. The inventory of new homes for sale rose to 336,000 in October after rising to 327,000 in September and has risen 18% over the past year. The median sales price fell 3.6% to \$309,700 as the market continues to shift to lower-priced homes. The November NAHB/Wells Fargo homebuilders' survey noted a sharp decline in buyer traffic.

Regional sales were mixed. New home sales rose 6.3% in the Midwest, 4.1% in the West, and 3.8% in the South. Home sales fell 17.1% in the Northeast. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

Existing Home Sales Rise 1.9%

Existing home sales rose 1.9% in November to a seasonally adjusted annual rate of 5.32 million homes after rising to 5.22 million in October. Sales were 7% below November 2017. It was the second consecutive month that sales increased. The National Association of Realtors said that even though sales are down significantly from a year ago rising inventory levels have helped slow down home price appreciation, bringing more buyers back into the market. The median existing home price rose to \$257,700; it was the 81st consecutive monthly increase in median prices and left prices up 4.2% from November 2017. Total housing inventory dropped to 1.74 million from 1.85 million in October, but was up 1.67 million from a year ago. Unsold inventory is at a 3.9-month supply at the current sales pace, down from 4.3 months in October and up from 3.5 months in November 2017. **Regional home sales were mixed.** Existing sales rose 7.2% in the Northeast, 2.3% in the South and 5.5% in the Midwest. Sales dropped 6.3% in the West.

Builder Confidence Falls to 56

Builder confidence fell four points to 56 in December after dropping eight points to 60 in November, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). Despite the decline, confidence remained in positive territory, although it was the lowest reading since 2015. Component scores all declined. Current sales conditions fell six

points to 61, expectations for the next six months dropped four points to 61 and buyer traffic fell two points to 43. Looking at the three-month moving averages for regional HMI scores, the Northeast dropped eight points to 50, the Midwest dropped two points to 55, the West fell three points to 68 and the South fell three points to 65.

Mortgage Rates Fall to 4.55%

A 30-year fixed-rate mortgage (FRM) dropped to 4.55% at the end of December after rising to 4.81% at the end of November. The 30-year FRM was 3.99% at the end of December 2017. Rates are currently hovering around the same level as in the early summer, which was before the deterioration in home sales. Freddie Mac said the negative headlines around the financial markets are concerning but the economy remains healthy, so the drop in mortgage rates should stem or even reverse the slide in home sales that occurred during the second half of 2018.

POWER TOOL INDUSTRY

Robert Bosch

Venture capital fund RBVC, owned by Bosch, has invested in artificial intelligence chip manufacturing enterprise Graphcore. In addition to Bosch, BMW, Microsoft, Google, Uber, Samsung and Dell are also shareholders. During the initial round of financing in 2016, Bosch was the lead investor.

Trimble

Trimble launched a new mobile app for contractors that was designed specifically for smaller contractors and companies. The Contractor WorkZone app is available for both Apple and Android mobile devices.

RETAIL

Retail Sales Rise 0.2%

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.

Mastercard reported that holiday sales increased 5.1% this year to more than \$850 billion, the strongest growth in the past six years. Online shopping rose 19% compared to 2017, according to Mastercard SpendingPulse. Brick and mortar retailers also reported strong sales. UPS expected holiday deliveries to average more than 31 million parcels each day, rising 5% from last year.

Lowe's

CEO Marvin Ellison plans to hire 2,000 software engineers and open a new direct-fulfillment center in the West as part of his ambitious overhaul designed to make Lowe's more efficient, boost sales in stores and improve customer service. The software engineers will allow Lowe's to switch to company-written software from the past practice of buying standard software and then customizing it. New CIO Seemantini Godbole says the reason Lowe's has had five CIOs in the past eight years is that the company has historically underinvested in technology and software. She wants to bring 80% of the software-engineering function inside the company, a process that will take up to three years. Lowe's expects to spend \$500 to \$550 million each year through 2021 to pay for the IT changes. It has not yet been determined where the new engineers will be based.

In addition to the new fulfillment center being built in Tennessee, Lowe's plans to build a second one in the West. Other planned changes include 20 new bulk distribution centers and more than 90 cross-dock terminals which will eventually handle the distribution of bulky items like appliances, riding lawnmowers and grills. Right now appliances take up 90% of the storage space in stores. Lowe's plans to spend \$1.7 billion over the next five years to build those needed facilities. Another ambitious goal is to grow sales to \$370 a square foot, up from \$335 in 2018. They are also looking to grow comp sales 3% compared to the 2.5% they were expected to grow in 2018. Only two C-level execs survived Ellison's house cleaning; one of them was CMO Jocelyn Wong.

Walmart

WM is buying Art.com, the online retailer of art and wall décor. Financial terms were not disclosed. The transaction is expected to be completed in early 2019. Walmart intends to operate Art.com as a standalone website and also add its products to Walmart.com, Jet.com and Hayneedle.com. It's the latest addition to WM's portfolio of smaller online brands.

Sears

CEO Eddie Lampert made an offer to buy Sears out of bankruptcy for \$4.4 billion and keep 425 stores in operation, but by the end of the month his bid still needed to be qualified by the SEC, which could happen some time in January. The bankruptcy court will decide what is the best offer for shareholders, which is not necessarily the highest offer. Sears filed for voluntary Chapter 11 in mid-October.

Ace Hardware

Ace Hardware and Centerbridge Partners are together weighing an offer for Sears Holdings' Home Services division that would compete with an anticipated bid from chairman Eddie Lampert, according to Reuters. Earlier in 2018 Lampert's company, ESL, offered to buy parts of the Home Services division for \$500 million. Lampert reportedly plans to forgive some of the debts Sears owes ESL as part of the offer, a maneuver known as credit bidding.

True Value

True Value announced a new partnership with Carter Lumber. Carter is a powerhouse in the lumber and building materials industry, and is #11 on the ProSales 100. Carter said that True Value's new business model was appealing to them.

Amazon

Amazon reported a record-breaking holiday season, and also reported that tens of millions of people worldwide signed up for Amazon Prime, which now costs \$119 annually. Amazon devices, including the new Echo Dot speaker and the Fire TV Stick, were big sellers, with millions more sold this year compared to holiday 2017.

Amazon will account for nearly half of all online sales for

2018, according to analysis by Emarketer, up from a 43.5% in 2017. Amazon is expected to generate \$258.22 billion in online retail sales in the US for 2018, an increase of almost 30% from the year prior.

More than one billion items were delivered for free through Amazon's holiday free shipping for all program. Amazon also reported that San Francisco led the nation in the most last-minute Amazon Prime deliveries for Christmas, followed by Austin, Texas; Miami, Florida; Dallas-Fort Worth, Texas and Springfield, Virginia.

Amazon hired SKDKnickerbocker and Greenberg Traurig to help improve their image in New York. SKD frequently consults in Democratic political campaigns and GT has a well-seasoned lobbying team. State and city lawmakers have questioned the impact Amazon's proposed 4 million-square-foot campus in Long Island City, Queens will have on the neighborhood and criticized the \$3 billion incentive package the city and state offered Amazon. New Yorkers are generally positive about winning the bid for one of Amazon's new headquarters, but are divided about the incentive package offered. They do all agree that they should have a say in Amazon's plans. Amazon has been bolstering their lobbying operation in Washington and spending more on advocacy groups.

It will be many years before the cities chosen for Amazon's new regional headquarters will see most of the 50,000 new jobs promised. Next year Amazon plans to add 400 employees in Virginia, and expects to reach half of its target hire of 25,000 employees by 2028. Amazon has a lot of work to do before anyone can start working, including office remodels of temporary offices they're already leasing. It will probably be at least two years before Amazon can break ground on their New York campus, although Northern Virginia may get started a bit sooner.

Amazon and Travelers has expanded Amazon's Smart Home Solutions to 11 additional states where home insurance customers can receive a free Amazon Echo Dot from Travelers and will also be offered discounts on smart home kits.

Sellers who use Fulfillment by Amazon will soon pay higher fees for products that Amazon considers "dangerous," including items with lithium-ion batteries and aerosols. The price hike was initiated after a can of bear spray exploded in a

warehouse, sending 24 people to the hospital, one in critical condition. The new fees go into effect in mid-February.

CANADA SNAPSHOT

Interest Rates Steady

The Bank of Canada (BoC) left interest rates unchanged at 1.75% at its meeting in early December, 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. There has been a steep slide in oil prices that is expected to reduce activity in Canada's energy sector. Trade uncertainty has also led to a drop in business investment. 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. Analysts expect the BoC to pause until oil prices recover, and speculate the next increase might not come until March 2019.

Unemployment Rate Unchanged at 5.6%

Employment held steady in December 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 of 2018. 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 Fall 1.7%

The Consumer Price Index (CPI) fell 1.7% in November after rising to 2.4% on a year-over-year basis in October, according to Statistics Canada. Cheaper gas prices contributed, as well as slowdowns in the cost of durable goods, traveler accommodations, digital computing equipment and devices and telephone services. The main upward drivers were higher costs for airline tickets, mortgage interest and fresh vegetables. Core inflation slowed slightly, falling to 1.9% in November from 2% in October.

GDP

Canada's GDP resumed growing in October, rising 0.3% after edging down 0.1% in September, which interrupted seven consecutive months of growth. GDP was up 2.2% from October 2017. Growth exceeded analysts' expectations. The main weak point was a 0.1% decline in construction, which fell for the fifth consecutive month. Goods-producing industries increased 0.3% after two monthly declines, while services-producing industries also grew 0.3%, their strongest showing since May.

2019 GDP Forecast

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 cuts will take a bite out of overall economic output. Alberta announced the government would impose temporary cuts of

325,000 barrels a day, or 8.7% of the province's oil output, to help alleviate a supply glut that built up due to severe transportation backlogs. The oversupply situation has severely depressed prices for Alberta crude, which has been trading at deep discounts to benchmark US prices. Economists say the drag on growth will ease as the year progresses, and the Alberta government plans to reduce the size of the cutback significantly after three months. New rail cars should increase export capacity by the end of the year.

Housing and Construction News

Housing starts rose 4.4% to 215,941 units in November, up from an upwardly revised 206,753 in October, according to Canada Mortgage and Housing Corp. Results were well ahead of economists' expectations and were led by gains in Vancouver. The pace of multi-unit urban starts rose 3.9% to 151,596 units, while single-detached starts fell 2.3% to 50,438. Rural starts were estimated at a seasonally adjusted annual rate of 13,887 units. The value of residential building permits rose 4.2% to \$5.2 billion in October, with both multifamily and single-family permits showing gains. Increases in Ontario and British Columbia helped offset a decline in Quebec. Demand is being supported by the fastest population growth in 27 years and new households being formed by millennials.

Home sales fell 2.3% in November after dropping 1.6% in October and were down year over year in three-quarters of all local markets, according to the Canadian Real Estate Association (CREA). It marked the fourth consecutive month-over-month decline. New listings fell 3.3% in November after dropping 1.1% in October. Average home prices are also falling, dropping 2.9% to \$488,000 compared to November 2017. Excluding Greater Toronto and Greater Vancouver, the average price of a sold home was just under \$378,000. 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.

Retail Sales Rise 0.3%

Retail sales increased 0.3% to \$51.0 billion in October. Higher sales at motor vehicle and parts dealers and gasoline stations were the main contributors to the gain. Excluding these

two subsectors, retail sales declined 0.4%. Sales were up in 5 of 11 subsectors, representing 69% of retail trade. After removing the effects of price changes, retail sales in volume terms were unchanged in October. Sales increased in five provinces, including Ontario, Quebec and British Columbia. Sales declined for the third consecutive month in Alberta. On an unadjusted basis, retail ecommerce sales were \$1.6 billion in October, accounting for 3.0% of total retail trade. On a year-over-year basis, retail ecommerce increased 19.3%, while total unadjusted retail sales rose 2.6%. In Canada, retail sales account for about half of all consumer spending, and are considered a proxy for overall consumer spending.

Retail Notes

Amazon is expected to create 600 new tech jobs in Toronto. Amazon says that many of the jobs will be in software development, machine learning and cloud computing and will be filled over the next five years. Toronto is one of Amazon's 18 tech hubs across North America.

MARKET TRENDS

Construction Employment Hot Spots

The Houston, Texas area added 25,600 construction jobs between October 2017 and October 2018, more than any other metro area in the US, according to an industry report. Phoenix, Arizona, Dallas, Texas and Orlando, Florida rounded out the top four with 16,700, 13,100 and 11,700 construction job additions respectively. Construction employment grew between October 2017 and October 2018 in 78% of the 358 metro areas tracked by the Associated General Contractors of America.

Housing Affordability Crisis

Nearly three out of four American households believe that the nation is suffering a housing affordability crisis, and a majority of respondents reported that affordability was a problem at their local and state level as well, according to a new nationwide survey conducted on behalf of the National Association of Home Builders (NAHB). More than 2,200 adults were surveyed in late November. The poll revealed that 73% of respondents believe housing affordability is a problem in the US, with 68% believing it's a problem in their state and 54% saying

it is a concern in their neighborhood. More than half of all respondents believed affordability was a problem in all areas, including rural, suburban and urban, with the greatest problem being perceived to be in urban neighborhoods. And 58% believed they would have a problem finding a home they could afford in their city or county. In terms of strategies to help with affordability, 55% believe cities and counties should lower development and construction fees builders must pay. The poll is also consistent with the latest findings from NAHB's Housing Trends Report for the third quarter of 2018, which found that 79% of buyers say they can afford to purchase fewer than half of the homes available in their local markets. Regulatory requirements account for about 25% of the cost of construction of a single-family home.

Voice-Activated Device Market Penetration Growing Rapidly

Amazon's Alexa could be between a \$18 billion and \$19 billion business by 2021, according to a new report from RBC Capital Markets. That estimate places revenue more than 45% higher than the estimate made in 2017. That means the voice assistant in Amazon's smart speakers could generate about 5% of Amazon's total revenue. The estimate includes \$9.2 billion in device sales, \$9.4 billion in incremental voice-driven e-commerce sales and platform revenue. Analysts estimate there are already more than 100 million Alexa-enabled devices functioning now. The firm's annual Alexa survey found that 41% of respondents have at least one voice-activated device, up from 21.5% in December 2017.

Voice Commerce in Infancy

In a December 2018 survey of 1,036 US internet users conducted by Bizrate Insights, 58% of respondents had not used and were not interested in using a smart speaker like Amazon Echo to make a purchase. EMarketer reports there were 17.2 million US smart speaker voice buyers in 2018, making up 28.2% of US smart speaker users.

Who Do Shoppers Trust?

Last minute shoppers now increasingly trust only physical stores or Amazon to get them their orders on time. The weekend right before Christmas is almost as big a shopping time as the Black Friday weekend; so much so Saturday has been dubbed "Panic Saturday." Shoppers surveyed by retail

platform Teikametrics said that they would either go to a store (56%) or turn to Amazon (40%) for last-minute gifts. Only 5% said they would trust a retailer other than Amazon to deliver their gifts in time. *The New York Times* reported that Amazon's share of shopping fell below 20% on Thanksgiving, but it shot up to 50% as the number of shopping days before Christmas fell. In 2017 Amazon's busiest day was December 18; it was December 10 for other retailers. One of the techniques Amazon uses to get people to trust them is to give out free Prime trials well before the holiday crunch.

Amazon Go Goes Smaller and Larger

Amazon is reportedly testing a mini-Amazon Go store that is just 450 square feet at a location in one of their Seattle offices. The typical Amazon Go is between 1,800 and 2,000 square feet. The test store isn't open to the public, just to Amazon employees and guests. Analysts speculate that the tiny shop could also be serving as a prototype for Amazon's entry into a very lucrative market, airport stores. Reuters cited emails to several airport operators in the US from Amazon, requesting meetings and referencing Amazon Go. According to the *Wall Street Journal*, Amazon is also testing a larger-format Amazon Go at a location in Seattle that is set up to look a lot like a traditional retailer, similar to Whole Foods, acquired by Amazon last year. However, Amazon has previously said they have no plans to add technology to Whole Foods. Amazon's cashierless concept may have been behind the new Sam's Club Now format planned for Dallas next October. That store is reputed to be 32,000 square feet.

Retail 2038

Retail pundits have been speculating about what retail shopping will look like twenty years from now, as digital commerce, artificial intelligence and other trends shape the way consumers prefer to shop. Some suggest that by 2040 many retailers will have closed most of their physical stores, moving their business online and offering deals consumers cannot refuse. Others believe that what will change is the type of products stores stock. As home delivery becomes the norm, there will be no need to go to the store to buy common goods like paper towels and laundry detergent. But people will still want to go out and see and touch the products that bring them joy and happiness, such as jewelry, furniture, clothing and cars. Some experts estimate that this category accounts for about 15% of purchases and believe the other 85% will be resigned to cyber-

space. One example cited was Tesla, which for five years has been selling cars from a boutique-sized indoor shop or outdoor pop-up tent just big enough to showcase three vehicles in a high-traffic shopping area. The space is staffed by two salespeople who demonstrate the car you are thinking about on your phone or iPad and offer you the opportunity to order the new car of your dreams on the spot. Other analysts point out that online giants such as Amazon are embracing the physical retail space and opening brick-and-mortar stores, generally in upscale areas. They also note that discounters and dollar stores are thriving. Rather than stores disappearing, they believe that stores will continue to evolve to provide shoppers with both the experiences and the products they are looking for.

Banks, Retailers and the Fed

A quiet war is going on over who will control a modernized system that would connect all US banks and credit unions and build a backbone for real-time payments in the US. Many retailers including Target, Walmart and Amazon and tech leaders including Apple, Google, PayPal, Square, Strip and Intuit, support the Federal Reserve taking a central role. Big banks are opposed, saying that they are already operating their own real-time system through The Clearing House, the payments company that they co-own. That system, known as RTP, has yet to be adopted by smaller financial institutions. Small banks say that unless the Fed builds a settlement system, they will be at the mercy of the big banks, which will have the power to set prices. Amazon's comments to the Feds say that existing credit and debit card payment systems are expensive and that a settlement system from the Fed would help ensure there is a long-term alternative that offers reasonable and controlled card payment fees.

Economic Forecasts for 2019

There is general agreement that both US and global growth will slow in 2019, but still remain healthy. Goldman Sachs sees US economic growth slowing substantially next year, due to the fading effects of tax cuts and the Fed rate hikes. They believe growth will slow to about 1.75% by the end of 2019. The Conference Board thinks the economy will gradually slow during 2019 but does not expect GDP growth to drop below 2%. The slowdown in the global economy, rising interest rates, weakening corporate profits and rising wages will all conspire to depress growth, but those factors are not expected to seriously

dampen consumer spending, which is the main driver of America's economy. In 2018, US growth was well above trend at 2.9%, with the acceleration almost entirely due to a large dose of fiscal stimulus, including tax cuts and spending increases, put in place at the beginning of the year. The impact of this stimulus will still be felt in 2019, but with diminishing potency as the year progresses. As a result, many analysts expect growth of 2.6%, less than in 2018, but still above trend. Global growth is expected to edge down from 3.2% in 2018 to 3.0% in 2019 and keep decelerating over the next few years. If trade conflicts remain high or escalate, a contraction in world trade could slow the world economy even more. At the same time, the sell-off in equity and commodity markets, on top of the gradual removal of stimulus by some central banks, means that financial conditions worldwide are tightening. Combined with heightened political uncertainty, these risks point to a greater probability of a global recession in the next few years.

Target's New Tech Startup Accelerator

Target is replacing its current retail tech accelerator operated by Boulder, Colorado-based Techstars with a new program it will operate in partnership with German food retail and wholesale giant Metro AG. The new accelerator is "certified" by Techstars, but not run by the organization. A Target spokesperson said that the new program will increase the diversification and globalization of their accelerator program. Metro has operations in 35 countries and more than 150,000 employees. Many corporate giants have launched startup accelerators in recent years as ways to encourage breakthrough innovations outside the confines and restrictions of corporate culture.

Is Amazon Developing a Home Robot?

Amazon has embarked on a major hiring push for a device shrouded in secrecy, with the company's website displaying more than 100 job openings in Seattle and California for the new project. The project is so secret that interviewees will not be told what they are working on until their first day on the job. Amazon is looking for experts in mechanical engineering and robotics and software developers to work on a "completely new best in class consumer product." Further qualifications include developers experienced in creating applications that respond to voice or gestures, building apps for smartphones and designing games that will create the most engaging play experience. They're also looking for mechanical and robotics experts who

have experience working with international factories for mass production, and experts in computer vision and academic psychology. Amazon-watchers are speculating that the secret project is a robot for the home.

Inflatable Packaging

Amazon has patented a package delivery system that allows for products to be safely dropped from a drone. The patent application describes an airbag covering the package that the drone could inflate before dropping it to a customer's backyard or patio. Amazon envisions using the package airbag technology on a variety of products, including a bag of groceries or a bouquet of flowers. The drone would first scan the drop zone for pets, people or other living things. Amazon's growing number of drone-related patents are a good indication of how heavily invested Amazon is in bringing the technology to the real world.