BOSCH

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US ECONOMY

Exchange Rates June 28, 2019

Euro	1 Euro = $1.138	$1.00 = 0.878 Euros
Canadian Dollar	1 CAD = $0.764	$1.00 = 1.308 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 107.799 Yen
Chinese Yuan	1 Yuan = $0.146	$1.00 = 6.866 Yuan
Mexican Peso	1 Peso = $0.052	$1.00 = 19.209 Pesos

Market Watch June 28, 2019

DOW	26,600	7.19%
NASDAQ	8,006	7.4%
S&P 500	2,942	6.9%

The markets turned around in June, erasing all of May's big losses and recording the best first half of the year since 1997. The Dow had its best June since 1938. All this despite having record-setting one-day losses over fears that a war with Iran was looming. Markets are all but certain the Fed will cut rates at its meeting in July, and hopeful that the latest round of trade talks will avert further tariffs on goods from China.

Consumer Confidence Falls to 121.5

The New York-based Conference Board's Consumer Confidence Index fell to 121.5 in June after rising to a slightly downwardly revised 131.3 in May, according to the Conference Board's latest survey. The Present Situation Index, which is based on consumers' assessment of current business and labor market conditions, dropped to 162.6 in June after rising to a downwardly revised 170.7 in May. The Expectations Index, which is based on consumers' short-term outlook for income, fell to 94.1 after climbing to a downwardly revised 105.0 in May. The Conference Board stated that the declines were driven by lowered expectations for the business outlook and labor conditions and the impact of rising tensions over trade and tariffs. 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% May after rising an upwardly revised 0.6% in April. Core consumer spending rose 0.2% in May after rising an upwardly revised 0.2% in April. Consumer spending rose 0.9% year over year for the first quarter, the slowest quarterly growth in a year. Personal income rose 0.5% in May after rising by the same percentage in April. Savings rose to $985.4 billion in May from a downwardly revised $975 billion in May. Inflation pressures remained low, with the personal consumption expenditures (PCE) price index excluding the volatile food and energy components rising 0.2% in May after rising 0.2% in April. In the 12 months through May, the core PCE price index increased 1.5% after increasing 1.6% in April, well below the Fed's preferred inflation reading of 2.0%.

Consumer Prices Rise 0.1%

The Consumer Price Index (CPI) rose a seasonally adjusted 0.1% in May after rising 0.3% in April. The year-over-year CPI was up 1.8% in May after rising 2.0% in April. Core inflation, which excludes food and energy, rose 0.1% for the eighth consecutive month. Core CPI was up 2.0% year over year, down from 2.1% in April. Fed officials worry that persistently low consumer prices could indicate slackening demand.

Unemployment Rises to 3.7%

The unemployment rate edged up to 3.7% in June after dropping to 3.6% in April and the economy added 224,000 new jobs, well ahead of forecasts of 170,000 jobs. The unemployment rate rose because more than 300,000 people entered the labor force looking for jobs. Unemployment remained near a 50-year low, but employment gains for May and April were revised down by a combined 11,000 jobs. The increase in hiring was widespread. Construction companies hired 21,000 new workers but retailers shed 6,000 jobs, adding to a recent string of declines in retail payrolls. The economy added an average of 172,000 new jobs a month in the first half of 2019 compared to a robust 223,000 pace in 2018. Average hourly wages for private-sector workers were unchanged at 3.1%. Wage growth has tapered off despite the tightest labor market in decades. 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 Fall 1.3%

Durable goods orders fell 1.3% in May after dropping a downwardly revised 2.8% in April. Much of the overall drop was due to a 28% decline in the volatile civilian aircraft component, but orders have fallen in three out of the past four months. Orders ex transportation rose 0.3% after being flat in April. Core durable goods orders for non-defense capital goods excluding aircraft, widely regarded as a key indicator of business spending, rose 0.4% after plunging a downwardly revised 1.0% in April. Nondefense capital goods shipments, which factor into GDP, rose 0.5% after falling a sharply downwardly revised 3.3% in April. The durable goods report is very volatile and often subject to sharp revisions.

Chicago PMI Falls to 49.7

The Chicago Purchasing Managers' Index (PMI) fell to 49.7 in June after rising to 54.2 in May. It was the first time the index dipped below 50 since January 2017. Demand eased off, Production fell to a three-year low and Order Backlogs remained in contraction for the second consecutive month. The special question posed to respondents in June concerned the impact of government-imposed tariffs on their business. 80% of firms said they were negatively impacted, with tariffs raising prices of their goods and leading to a pullback in orders. MNI Indicators noted that the coming months will show whether diminished business confidence is temporary and due to tariff woes or more structural, calling for some counter measures. Economists use the Chicago PMI and other regional indicators to gauge the health of the ISM manufacturing index.

Wholesale Prices Rise 0.1%

The Producer Price Index (PPI) rose a very slight 0.1% in May after inching up 0.2% in April and was up 1.8% year over year. Core producer prices, which exclude food, energy and trade services, rose 0.2% in May after rising 0.4% in April and were up 2.3% year over year after being up 2.2% in April 2018.

Q1 GDP Unrevised at 3.1%

GDP growth was unrevised at 3.1% according to the final reading in May, although it had already been revised down from the 3.2% first reported. The pace of growth in the first quarter was much stronger than the 2.2% rate of growth for the fourth quarter of 2018 but economists expect that growth slowed considerably in the second quarter. Sectors of the economy tied to trade, manufacturing and housing appear to be struggling, inflation is weak and global growth is slowing. Consumer spending for the first quarter was revised down to 0.9% from the prior estimate of 1.3%, and was down sharply from 2.5% growth in the fourth quarter of 2018. Weaker consumer spending was driven by lower spending on services. Fixed nonresidential investment, a measure of business investment, was revised up from 2.3% to 4.4%. Inventory building was revised down slightly, but still contributed 0.56% to GDP growth. Consumer spending accounts for more than two-thirds of US economic activity.

Job Openings Fall Slightly

The number of job openings fell slightly to 7.4 million in April after rising to 7.5 million in March, according to the most recent Job Openings and Labor Turnover Survey (JOLTS). The job openings rate was unchanged at 4.7%. Hiring jumped by 240,000 jobs in April to 5.9 million, the highest level since tracking began in 2000. The hiring rate increased to 3.9% from 3.8% in March. Job openings have been fairly steady since hitting an all-time high of 7.6 million in November. The increase in hiring was concentrated in the private sector, with job openings in the construction sector increasing to 404,000 in April, a post-Great Recession high and a 57% increase from the open rate of 258,000 open construction jobs in April 2018. The construction sector hiring rate on a 12-month moving average basis increased to 5.3% in April. The number of people voluntarily quitting their jobs was little changed at 3.5 million in April, keeping the quits rate at 2.3% for 11 consecutive months. Layoffs edged up in April, with the layoff rate rising to 1.2% from 1.1% in March.

Fed May Cut Rates

The Fed left interest rates unchanged at a range of 2.0% to 2.25% at their meeting in mid-June but announced that they are considering a rate cut for the first time in more than a decade to give the economy a boost. Trade wars and slowing global growth are the main issues concerning the Fed, which is aiming for an inflation rate around 2%. A moderate amount of inflation is seen as a sign of a healthy economy, because as the economy grows, demand increases, which generally drives up prices and eventually wages. Very low inflation or deflation is seen as a sign of weak demand, which slows growth and depresses wages. In 1979 the Fed's increases drove rates up to a record 20% before inflation started dropping. A string of tepid economic reports throughout the month of May led economists to forecast that the Fed will cut rates at its meeting in July.

GDP Forecast

S&P Global Ratings raised their forecasts for US GDP growth to 2.5% for 2019 and 1.8% for 2020 but warned that the overall odds of a recession have also increased as global trade tensions threaten the already slowing economic expansion. Their previous growth estimates were 2.2% and 1.7%, respectively. The upward revisions were due to unexpected increases in both net exports and inventory investment for the first quarter. They project that the 25% tariffs imposed on Chinese goods in May will cost the US economy an additional $60 billion, or 0.3% of GDP by the end of 2020. Growth could dip below 1% in 2020 if tariffs on the remaining $300 billion worth of Chinese imports are imposed and duties are levied on autos from the EU and goods from Mexico, according to S&P. They place the risk of a recession over the next 12 months at between 25% and 30%, up from a range of 20% to 25%, but "not enough to raise an alarm," according to S&P.

HOUSING & CONSTRUCTION

Housing Starts Fall 0.9%

Housing starts fell 0.9% in May to a seasonally adjusted annual rate of 1.27 million units from an upwardly revised reading in April. **Single-family starts fell 6.4%** to 824,000 units after rising to 854,000 units in April and multifamily starts rose 10.9% to 449,000 units. **Regional starts were mixed.** Combined single-family and multifamily starts year to date rose 11.2% in the South. Starts dropped 45.5% in the Northeast, 8.0% in the Midwest and 2.4% in the West. Wells Fargo noted that the housing market was "fairly solid" and credited flooding and other seasonal weather issues with the slump.

Building Permits Rise 0.3%

Building permits rose 0.3% in May to a 1.3 million units annualized rate after being revised down in April. **Single-family permits rose 3.7%** to 815,000 units after falling to a three-year low in April. Multifamily permits fell 5.0% to 479,000 units after rising to 514,000 units in April. **Regional permits were mixed.** Year to date, permits rose 6.8% in the South and 1.8% in the West. Permits fell 24.6% in the Northeast and 8.4% in the Midwest.

New-Home Sales Fall 7.8%

New-home sales fell 7.8% in May to a seasonally adjusted annual rate of 626,000 units after falling to 673,000 units in April. New home sales were up 4.0% from May 2018. The inventory of new homes for sale was 333,000, a 6.4-months' supply at the current sales pace. The median sales price fell to $308,200 in May after rising to $342,200 in April. The median sales price in May 2018 was $316,700. Sales growth was concentrated in the $200,000 to $300,000 price range. **Regional new home sales were mixed.** Sales dropped 35.9% in the West and 17.6% in the Northeast. Sales in the South rose 4.9% and sales in the Midwest rose 6.3%. Year to date regional sales were up 7.5% in the South and 3.4% in the West and down 13.3% in the Northeast and 3.2% in the Midwest. 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 2.5%

Existing home sales rose 2.5% in May to a seasonally adjusted annual rate of 5.34 million units after falling to 5.19 million units in April. The increase in sales came after four consecutive months of declines. Sales were down 1.1% from May 2018. **Sales improved in every region during May,** with sales rising 4.7% in the Northeast, 3.4% in the Midwest, 1.8% in the South and 1.8% in the West. Total housing inventory at the end of May rose to 1.92 million units from 1.83 million in April. Unsold inventory is at a 4.3-month supply at the current sales pace, up from 4.2 months in April and 4.2 months in May 2018. The median existing home price for all housing types in April was $277,000, up from $267,300 in April and up 4.8% from May 2018. It was the 87th consecutive month of year-over-year increases in home prices, but the pace of home appreciation has definitely moderated, and homes are remaining on the market longer.

Builder Confidence Falls to 64

Builder confidence fell two points to 64 in June after rising to 66 in May, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). Builder confidence has been in the low- to mid-sixties for the past five months. Builders report demand has been solid, but development and construction costs continue to rise and labor remains in short supply. **Scores for the HMI components all dropped**

in June. The index measuring current sales conditions fell one point to 71, the component gauging expectations in the next six months fell two points to 70 and the component for buyer traffic fell one point to 48. **The three-month moving averages for regional HMI scores were mixed,** with the Northeast rising three points to 60, the Midwest rising three points to 57, the West holding steady at 71 and the South falling one point to 67.

Mortgage Rates Fall to 3.73%

A 30-year fixed-rate mortgage (FRM) fell to 3.73% at the end of June after falling to 3.99% at the end of May. Rates were 4.55% at the end of June 2018. Freddie Mac expects rates to average 4.5% this year and 4.8% next year. The drop in mortgage rates over the past two months has begun to be felt in the housing market, with mortgage applications rising 5% in June.

POWER TOOL INDUSTRY

Robert Bosch

Bosch has used their open-source-based Bosch IoT Suite to connect more than 10 million devices from various manufacturers and is now working with partners to enable those devices to communicate and interact in secure ecosystems. Bosch sold 52 million web-enabled products in 2018, up more than 33% from the previous year. Bosch gave attendees a glimpse of the interconnected future at Bosch ConnectedWorld 2019 in Berlin. Bosch CEO Dr. Volkmar Denner said that in the future things will not just be connected in order to communicate, but in order to enable them to do business together.

Stanley Black & Decker

Bank of America/Merrill Lynch initiated their coverage of SB&D stock with a rating of Underperform, noting that slowing power tool trends, a challenging auto segment, structural headwinds in Security and China supply chain exposure were all risks. They also said home values are rising at a slower rate, which they said has historically led to slower power tool demand. The analyst also felt that the Security business will be tough to fix and that selling is not an easy option.

SB&D won four Comparably Awards, including Best CEO as rated by Female employees, Best CEO as rated by racially diverse employees, Best Leadership Team and Best Company for Professional Development. Comparably Awards are derived from sentiment ratings provided by employees who anonymously rate their employer throughout the year in nearly 20 core culture categories. The final data was compiled from nearly 10 million ratings across 50,000 US companies on Comparably.com.

TTI/Techtronic Industries

Milwaukee will open the latest new building in their global research and development headquarters in Brookfield in October. In addition, Milwaukee is reportedly attempting to acquire more neighboring land for their next expansion, according to Milwaukee Tool Group President Steve Richman. He went on to say they have to stop underestimating their needs and go “really big” in their next expansion. They want to acquire enough acreage to accommodate ten years’ worth of growth. Richman said they hope to be able to expand in Wisconsin, but will look elsewhere if necessary.

RETAIL

Retail Sales Rise 0.5%

Retail sales rose 0.5% in May and sales for April were revised up to 0.3% after originally being reported as dropping 0.2%. Retail sales were up 3.2% from May 2018. Core retail sales, which exclude food services, car dealers, building-materials stores and gasoline, also rose 0.5% after an upwardly revised gain of 0.4% in April. Core retail sales correspond most closely with the consumer spending component of GDP. Sales rose in eleven out of thirteen categories. Building materials and garden equipment sales rose 0.1% and online and mail-order purchases rose 1.4%.

Companies Speak Out Against Tariffs

Walmart, Target and hundreds of other companies and associations made a plea to President Donald Trump to return to the negotiating table with China and hold off imposing any additional tariffs. More than 500 companies and 140 groups representing manufacturers, retailers, oil and gas firms and other industries all signed a letter that came from “Tariffs Hurt the Heartland,” an umbrella group of trade associations that’s pushing back against Trump’s trade war. The President levied duties of $250 billion on Chinese products in 2018, and after talks on a trade deal faltered in May, ordered a tariff increase from the existing 10% to 25% on both the original $200 billion of good as well as another $300 billion in new categories. The coalition commissioned a report in February that showed that the tariffs, along with China's retaliation, would lead to the loss of more than 2 million US jobs, increase costs for the average American family of four by almost $2,300 and trim GDP. The letter went on to state that the companies and groups support Trump's efforts to hold trading partners accountable but believe both sides will lose in an escalated trade war.

Last Minute Cease-Fire in the Trade War

President Donald Trump and Chinese President Xi Jinping agreed to a new cease-fire in the year-long trade war between the two countries. The agreement came after a side meeting between the two leaders during the Group of 20 summit in Japan in late June. Both leaders agreed that stalled trade talks would resume and that the US would hold off on threatened additional tariffs on another $300 billion in Chinese goods. President Xi Jinping said, "China and the United States both benefit from cooperation and lose in confrontation." President Trump said, "Talks went better than expected" and acknowledged the US has had an "excellent" relationship with China, but "wants to do something that will even it up with respect to trade."

The Home Depot

Sanford C Bernstein Strategic Decisions Conference:

CEO Craig Menear said that in December 2017 they set out to position THD for long-term growth and doubled their investment in the business over the next three years. They focused on a few key areas, with about 50% of the investment going back into the store environment.

If the customer is going to take time to drive to the store, they need to provide a great in-store environment. They are addressing key issues customers have, like wayfinding. They are accelerating merchandising resets, redoing the front ends of stores to make checking out faster and making it easier for people to find what they are looking for.

They are also investing in system capabilities that make it easier for customers to engage in both the digital and physical world. During the previous quarter about 54% of all their online orders in the US were picked up in a store. Ninety-five percent of customers give the automated lockers used to provide speedy pickup with no need to interact with an associate five out of five stars.

For consumers, they are a project business. Most of the digital world is centered on item retailing; they want to make it easier for customers to do projects, because that's why they come to Home Depot.

They are investing in the Pro experience, with a robust B2B website they will be ramping up all throughout the year.

They are investing in their supply chain, continuing to automate their upstream network and building out the capability of a robust downstream market for both consumers and Pros. By 2022 they will have 90% of the US population covered for same-day and next-day delivery capabilities with every type of product they sell.

They set up a team several years ago that operates inside their finance group and supports merchandising. So whenever merchants go through a review process or they get a cost request, that analytics team supports them. It's very proactive.

The industry overall is quite competitive; they think about it in terms of who sells the most in a category. It is by no means a duopoly between two big retailers. Lumber and building material yards sell the most lumber. Drywall houses sell the most drywall. They look at various competitors across different spaces. They believe plumbing and electrical distributors offer a great opportunity for them to gain share.

During the Great Recession, they saw two dynamics. First, a modest shift in where customers would buy within a line. It would move to the ends; either the opening price point, or the customer would invest in the best if it offered innovation. Customers also worked harder at maintaining what they had; instead of putting on a new roof, they'd buy repair products. They hope they never see another downturn like that one, but they learned a lot from it.

They are committed to making their stores locally relevant. They have invested a lot of time and money over the past several years in tools that make it possible for their merchants to localize to a particular market. It can be driven by market preference as well as by store space and capability.

They have a long way to go to truly deliver the One Home Depot experience. If you walk into a store, you can't buy an item off the shelf, pick up a special order and order something from the website in one transaction because they are not the same item file and the systems don't work together now. They are working on fixing that.

Approximately 90% of the US population lives within 10 miles of a Home Depot store, which gives them a definite advantage over Amazon.

It is a myth that margins with Pro customers are lower than margins with DIY customers. When you look across the store, margin mix is very comparable. In specific categories such as lumber, drywall and roofing, margins will be less and that can create margin pressure overall if that is all the Pro is buying, but that is not a typical situation. Normally Pros are just like consumers, they are working off and buying from a project shopping list. Their acquisition of Interline will enable them to serve Pros who need multiple trucks of product.

The number of retailers that customers shop is shrinking. Over the past four years it's gone from 13 to 9. The customer wants them to serve a larger share of their wallet. That's why they believe that moving into home décor categories makes sense for them. Most of that will be done in the digital world, where space is unlimited, rather than in the stores, where they just don't have the room to do a good job.

They will not focus on international until they feel as if they are tapped out in the US, and even then it would be difficult, as most of the international spaces are already overstored.

Right now, they are about 20% private label; their approach has been that the customer will take them there, and they've been very transparent with their suppliers. As long as their brands are incredibly relevant to the customer, they will be a brand house. If they feel innovation is lacking or value is not there they will take it to private label in order to deliver value to the customer. They have a large number of private label brands and every single one of them has at least a four-star rating with customers.

Independents do a pretty good job of delivering high-touch service to their customers and finding a niche and being good at it. At THD they are trying to capitalize on the fact that today much shopping begins in the digital world even if it ends in the physical world. Therefore they need to deliver great service in the digital world, and they are in the process of doing that.

Tool rental is a pretty flat business; it's not cyclical, it's ongoing. There are many reasons a customer or a Pro rents tools rather than buying them.

Even though the labor market is very competitive now, they had no problem hiring 80,000 associates for the busy spring season, because working at Home Depot offers a lot more than wages. A full 90% of the leadership in their stores has come from people who started as hourly associates.

They survey customers and associates monthly. In addition to their monthly Voice of the Customer (VOC) they also do a monthly Voice of Associates (VOA). Their VOA is at a record high.

Craig Menear said he didn't think robots would be showing up to fix people's toilets any time soon; that it is very important to offer knowledgeable associates in a project-based business. Automation has the potential to enhance the capabilities of associates, and that's what they are investing in.

The number one job of their merchants is to be the customers' advocate for value, and figure out how to deal with all the pressures on the business while minimizing the impact on the customer.

The percentage of their business that is Pro is in the mid-forties; Menear thinks that could grow a point or two over the next several years but does not ever want it to overwhelm the DIY business. They believe that if they serve Pros they will also be providing what DIY customers are looking for.

Last year they implemented a change in their labor model, which they hadn't touched in more than a decade. Their new model recognizes that some interactions with customers take much longer than others and allocates time accordingly. After testing the new model, they rolled it out into the stores and should see the benefits going forward.

They would be concerned if there was an event that really

shook consumer confidence for the long term as it did back in 2007 and 2008. But even in a deep recession, their model would allow their cash flow to be fine.

They have a terrific appliance business; approximately 75,000 appliances break every day in the US. So the business has a replacement element as well as an upgrade element driven by innovation.

Lowe's

Lowe's will lease the entire office space at a new tower in Charlotte's South End near the Design Center of the Carolinas. The 200,000 square foot space will house Lowe's new tech center and 2,000 technology workers with an average annual wage of about $118,000. Nashville, Dallas and several other cities were considered by Lowe's before they decided to stay in their own hometown. CEO Marvin Ellison said that the availability of highly skilled tech workers as well as a talent pipeline was one of the deciding factors. Lowe's needs to hire 400 workers in the next year. Charlotte consistently ranks on the top of lists measuring where young workers are going, with 100 or so people moving to the region daily, a bulk of them millennials. A spokeswoman for the city of Charlotte declined to say how much was offered to Lowe's in terms of incentives, but the deal will become public knowledge when the City Council votes on it, most likely in late July. One of the things Charlotte did early on was build hangars for Lowe's at CLT airport.

Walmart

Walmart is planning to offer thousands of deals to counter Amazon over four days around Amazon's two-day Prime Day sales blitz. They will offer special buys and rollbacks between July 14 and July 17. Prime Day is July 15 and 16. Target is also offering special deals on July 15 and 16. According to a survey by retail consulting firm Bazaarvoice, about 70% of consumers plan to shop Amazon during Prime Day sales, 44% plan to shop Walmart, 40% plan to shop Target and 24% plan to shop Best Buy.

Walmart will launch a pilot of InHome Delivery this fall. InHome is a new service that will deliver groceries directly to a customer's refrigerator when they are not home. Customers place an online grocery order, select InHome delivery at checkout and then can watch the actual delivery on their devices. The associates involved will have their jobs focused on the service and go through an extensive training program that includes how to enter and treat a customer's home, select the freshest grocery items and organize an efficient refrigerator. The test markets this fall will be Kansas City, Pittsburgh and Vero Beach, Florida.

Ace Hardware

Ace will open new Ace Hardware stores in 11 former Orchard Supply Hardware locations in California. Nine of the stores will be owned and operated by Ace subsidiary Westlake Ace Hardware. Orchard Supply was a neighborhood fixture in California before Lowe's decided to close all 99 Orchard Supply stores in 2018 in order to focus on their core business. Ace opened 173 new domestic stores in 2018 and now has more than 4,400 stores across the country. Another seven former Orchard Supply stores will be reopened by Orgill's Central Network Retail Group.

True Value

True Value promoted two executives to manage distribution and supply chain optimization after Abhinav Shukla, former senior VP and COO, left to take a position with Aspen Dental Management. The new leaders are Jim Harrington, VP of supply chain operations and Lyndsi Lee, VP of supply chain.

True Value recently announced the winners of their 2018 "Best Hardware Store in Town" contest. The winning 13 retailers were selected from more than 4,500 stores and honored at an awards ceremony during their Spring Reunion buying show in Dallas, Texas. To be recognized, the stores undergo a series of selection processes, with regional directors narrowing down the top candidates. Then mystery shoppers visit each selected store to gain a customer's perspective on the operations. Finally, True Value evaluates each finalist based on a series of criteria that includes physical store appearance, product selection, competitive pricing, promotional sales and customer service.

Amazon

Amazon Prime Day will be a full 48 hours this year, running from 12 a.m. July 15 through 11:59 p.m. July 16. Prime Day last year was 36 hours.

FedEx will not renew their domestic air delivery contract with Amazon. The decision highlights tensions between the long-term business partners that developed after Amazon built out their own logistics network and started delivering more packages themselves, lessening their dependence on FedEx and other shipping partners. FedEx will stop working with Amazon at the end of June. FedEx stated that Amazon accounted for less than 1.3% of their revenue last year. Amazon relies more heavily on UPS and the US Postal Service. Analysts noted that Amazon accounted for about 10% of UPS revenue and 15% to 20% of volume. Last year when Amazon demanded price concessions from both shippers, UPS acquiesced and FedEx did not, causing much of the FedEx volume to be awarded to UPS.

Amazon is looking at buying pre-paid mobile phone provider Boost Mobile, which is owned by Sprint and expected to be sold as part of Sprint's merger with T-Mobile. Such a purchase would give Amazon access to the mobile networks that would be owned by the combined Sprint and T-Mobile along with a pool of mobile customers estimated to be in the millions. The deal would require Justice Department approval. Purchase price of Boost has been estimated in the range of $3 to $5 billion.

Amazon abandoned their two-year-old social shopping experiment Spark, which showcased a customized feed of user features and ways customers could connect with or get advice from each other. Spark never generated much interest, and Chee Chew, head of Amazon's customer engagement and the main cheerleader for Spark, left to take a position at cloud communications company Twilio.

CANADA SNAPSHOT

Interest Rate Projections

The Bank of Canada (BoC) left interest rates unchanged in May, reinforcing the Bank's view that the slowdown that began in late 2018 was temporary. The central bank forecast that GDP expanded 1.3% in the April-to-June period; that may be on the low side. Other indicators also point to an economy on the mend. The rate is currently 1.75%, below the neutral range of 2.25% to 3.25%, the rate at which monetary policy supposedly neither stimulates nor restrains growth. Canada's economy slowed from 3% growth in 2017 to 2% in 2018 and is expected to slow even further this year. The bank is not forecasting a recession. The BoC echoed US financial analysts' comments that the recent inversion in the yield curve is not an indicator of recession, but instead is caused in part by the fact that rates are so low throughout the economy.

Unemployment Rises to 5.5%

The unemployment rate ticked up to 5.5% in June after falling to 5.6% in May and the economy added 132,000 new jobs, almost all full-time positions. Employment was up 2.3% year over year with a net gain of 421,000 new jobs. Employment increased in Alberta and Saskatchewan and decreased in Manitoba, Newfoundland and Labrador. Employment was little changed in the remaining provinces.

Consumer Confidence Falls to 119.3

Consumer Confidence in Canada fell one point to 119.3 in June after rising in May. Only the Ontario and Saskatchewan–Manitoba indexes rose in June; all other regions posted declines. The monthly Index of Consumer Confidence is constructed from responses to four attitudinal questions posed to a random sample of Canadian households.

Consumer Prices

The Consumer Price Index (CPI) rose 2.4% on a year-over-year basis in May, following a 2.0% increase in April, according to Statistics Canada. On a seasonally adjusted monthly basis, the CPI rose 0.4% in May after rising 0.3% in April. Stable to slightly higher inflation and generally improving domestic data should allow the BoC to remain patient on interest rates.

GDP Rises 0.3%

GDP rose 0.3% in April to a seasonally adjusted 1.959 trillion Canadian dollars after rising 0.4% in March, according to Statistics Canada. Market analysts had expected GDP to grow 0.1%. Output in April was fueled by energy production, mining and wholesale trade. The Canadian economy grew 1.5% year over year in April. Many economists believe the worst is over for the Canadian economy and expect growth to accelerate over the rest of the year. Household spending grew 0.9% in the first quarter, spending on durable goods rose 1.2% and business investment rebounded, growing 3.2% after dropping 2.5% during the fourth quarter. Housing investment fell 1.6%, the fifth consecutive quarterly decline for the sector.

Strengthening Canadian Dollar

The loonie is up 3.8% against the US dollar this year, boosted by a recent spike in oil prices, better-than-expected domestic wholesale trade numbers and increasing speculation that the US Fed will cut interest rates in July. Canada's forestry industry, which is struggling with slumping lumber prices, derives most of its earnings from the US. A stronger loonie could cause shipping costs to spike as well.

Housing and Construction News

The annual pace of housing starts slipped 13.3% to a seasonally adjusted annual rate of 202,337 units in May, down from 233,410 units in April. Results were below expectations of 205,000 starts. The annualized pace of urban multi-unit projects fell 18.5% to 141,851 in May and single-detached urban starts rose 1.8% to 45,095. Rural starts were estimated at 15,391 units. The six-month moving average of the monthly seasonally adjusted annual rates was 201,983 in May compared to 205,717 in April.

Home sales rose 1.9% in May 2019 after rising 3.6% in April. May sales were up 6.7% compared to May 2018, according to the Canadian Real Estate Association (CREA). The CREA also revised their forecast for sales for the year, which are now projected to rise 1.2% to 463,000 units compared to their previous forecast of a 1.6% decline in sales this year. The Bank of Montreal noted that falling long-term rates and the fastest population gains in decades were fueling the market. The increase for May was driven by the greater Toronto area, which accounted for close to half of the overall increase. Regionally, sales are forecast to rise 10.6% in New Brunswick, 7.7% in Quebec and 3.9% in Ontario. Sales are expected to drop 13.3% in B.C. and 0.9% in Alberta. The national average home price is expected to edge down 0.6% this year to around $485,000 after falling 4.1% in 2018.

The Canadian Real Estate Association (CREA) upgraded their forecast for 2019, and now expects sales to improve slightly compared to last year. The outlook was upgraded as CREA reported that sales in May rose 6.7% compared to May 2018, the largest year-over-year increase since 2016. The improvement in sales was driven by the Greater Toronto area, which accounted for nearly half of the overall increase. The national average price of a home sold in May was up 1.8% from a year ago to $508,000. Excluding the Greater Vancouver and Greater Toronto areas, two of the country's most expensive markets, the average price was just under $397,000. Analysts said that markets have had a chance to adjust to tougher mortgage qualification rules and federal and provincial policy measures. CREA also said that the overall level of home sales is expected to remain below the recent norm and the 10-year average.

Retail Sales

Retail sales increased for the third consecutive month, edging up 0.1% to $51.5 billion in April after rising 1.1% to $51.3 billion in March. Sales were higher in 7 of 11 subsectors, representing 74% of retail trade. Sales were higher in four provinces, but fell in B.C. and Quebec. Higher sales at gasoline stations were responsible for much of the increase, which was due to higher prices at the pump, as volume actually dropped. Sales at building material and garden equipment and supplies dealers fell 2.6% after rising in March. In volume terms, core retail sales fell 0.2%. On an unadjusted basis, retail ecommerce sales reached $1.6 billion in April, accounting for 3.0% of total retail trade, compared with 2.0% of total retail trade in April 2016, the year when official monthly stats for ecommerce were first published. Compared with April 2018, retail ecommerce increased 14.9% in April 2019, while total unadjusted retail sales increased 5.0%.

Retail Notes

Amazon Canada and Mastercard released the Amazon Rewards Mastercard. Amazon Prime members will get 2.5% cash back when they make purchases at Amazon.ca or Whole Foods Market stores. In addition, Prime members will also get 2.5% cash back on foreign currency purchases and 1% on all other eligible purchases. Customers who are not Prime members will still get 1.5% back on amazon.ca and Whole Foods purchases and 1% back on all other qualifying purchases. Amazon also expanded Prime free same-day delivery to Calgary, Alberta, making it the third Canadian city to enjoy the benefits of Prime free same-day delivery seven days a week. About a million items are eligible for same-day delivery in Calgary.

MARKET TRENDS

Construction Ripe for Hackers

Cybercriminals are finding the construction world a great place to find targets flush with cash and short on cybersecurity, according to *Engineering News Record.* Email can be used to divert funds being sent by wire transfer; when that happens, they literally vanish into cyberspace. Contractors, construction managers and owners worry about cybercrime, but often do not take the steps needed to fully protect themselves until after there's been a data breach or some other problem. Today's hackers often have day jobs with state-sponsored foreign agencies that don't pay well; in their spare time they write ransomware and develop phishing scams.

Some experts say that phishing is the biggest risk because there are many financial communications conducted electronically. The FBI reports that more than $1.2 billion was lost to email-centered crimes against business in 2018. Hackers often get started by picking through stolen Gmail or Yahoo credentials which can be bought in bulk on the dark web. Hackers use the credentials to find people mingling business with personal and often using the same login credentials, which can get hackers into corporate email systems. Phishing emails often show up on Friday afternoons when internal personnel who might verify the request have probably left for the weekend, so the victim completes the task requested. In the most sinister of cases, they are coming from a real email account that's been hacked, rather than one that has been spoofed.

Cybersecurity vendor Symantec says that ransomware infections were up by 12% in 2018. Microsoft Office files account for 48% of malicious email attachments; smaller companies are most at risk. Research firm Vanson Bourne surveyed 3,100 IT managers across the globe in December 2018, including more than 200 IT managers in the construction industry, and found that 68% had been victims of cyberattacks in the previous year and were unable to prevent the attacker from entering their networks. Larger companies saw more attacks, most likely either because they make more lucrative targets or that they are better at detecting the hack. On a more problematic note, 17% of IT managers didn't know how long the threat had been in their system and 20% didn't know how it got there.

Experts suggest companies turn to third-party experts for a systems analysis and security systems. The Center for Internet Security is a nonprofit that works to identify, validate, promote and sustain best practices in cyberspace. Limiting administrative privileges and monitoring network activity are critical.

Construction Goes Electric

Manufacturers see big potential in battery-powered equipment, but hurdles remain, according to *Engineering News Record* (ENR). Major manufacturers are seizing on recent advances in lithium-ion battery technology as well as improvements in the drivetrains and motors used in on-road electric vehicles. Volvo Construction Equipment has already pledged to cease development of diesel-powered compact equipment and shift the product line entirely to battery-powered electric beginning in 2020. A compact excavator and compact wheel loader will launch in mid-2020 initially in Europe and then eventually in other markets. Daniel Abraham, senior material researcher at Argonne National Lab, says that they do not believe there will be any breakthroughs that will replace lithium ion for at least another decade. One limitation is the fact that the batteries' performance is affected by extreme temperatures. High heat shortens the life of the battery and extreme cold causes a big decline in performance.

California Construction Workers Getting Squeezed

California's high housing costs may be contributing to a chronic shortage of construction workers. Only 18% to 23% of households can afford a median-priced home in high-cost areas, pushing workers out away from the coastal market and into the interior, where they face commutes up to six hours. Some firms are trying to provide temporary housing near construction sites. Competition between residential developers and commercial and municipal projects is pushing up wages as well as building and housing costs.

Home Remodeling Expenditures Slowing

Home remodeling spending hit a record high of nearly $425 billion in 2017 but annual gains are projected to slow in more than half of the nation's largest housing markets this year, according to a report from the Remodeling Futures Program at the Joint Center for Housing Studies of Harvard University. Researchers estimate the annual growth in home improvement spending will fall to the lowest rate in three years in nearly half of the housing markets studied. There are also areas where remodeling is growing, including Orlando and Las Vegas. Regionally, the strongest growth this year is expected to be among metros in the West. Other factors include existing tariffs on materials such as timber, aluminum and steel that are driving up prices as well as cooling home prices, which reduces household net worth. In hot housing markets, the remodeling market is also very brisk, as there is generally a great deal of activity that occurs before a home is listed.

New Building Sector Technologies

A new expo and conference called AEC BuildTech was held near Chicago in early May to bring together attendees and suppliers and explore how best to implement new technologies in the building sector. Lessons shared included learnings about installing prefab bathroom pods from PIVOTek and mechanical/electrical racks and piping from Waldinger Corp. The event was sponsored by BNP Media, parent of *Engineering News Record.* Steve Jones, senior director of research at Dodge Data & Analytics, told attendees that the industry is one-third of the way through its digital transformation.

ENR Future Tech Conference

More than 700 industry technology professionals attended ENR's three-day conference, Future Tech, in San Francisco to shop for new technologies, gain insights that will assist in strategic decision making and learn how other firms are innovating and solving problems. Interest and investment in construction technology has grown steadily in recent years. Research from McKinsey in 2018 identified growing activity centered around artificial intelligence (AI) and advanced analytics. Malicious hacking and ransomware are growing threats to the industry, and a panel of experts agreed that construction is lagging behind in cybersecurity. Rising materials prices and skilled labor shortages remain top of mind. A survey revealed that attendees were most concerned about the impact of modularization and improving decision-making in preconstruction. The increased use of robots and automation were seen as ways to close the skilled labor gap and bring down costs.

Understanding Gen Z

The 60 million members of Gen Z are those born after 1996. They started moving from college to careers this year. They come from the first post-9/11 generation and grew up with social media and smart phones. They've also watched their parents deal with a deep recession and a big housing bust, and they are coming of age in a time of deep political polarization and soaring college debt.

Gen Zers are expected to differ from Millennials, those born from 1981 to 1996, in many ways. Because of what they've been through, they're expected to place greater emphasis on financial security, flexibility and workplaces that reflect the growing diversity of their schools and peer groups, according to an article in *The Baltimore Sun.* They describe themselves as "vocal" and not afraid to ask for what they want, or speak up when they see a problem.

To attract young talent, employers are offering tuition assistance, virtual internships and flexible career paths. YouTube and visual media are the preferred method of learning for this generation. Studies show that about a third of Gen Z members spend four hours or more per day online watching videos. This generation has known the internet for their entire lives. They are therefore more skeptical, and more concerned about things like loss of privacy. They are self-starters and know how to find things. They are more independent than millennials, and less likely to have been raised by hovering "helicopter" parents. They are likely to question what is expected of them and be more frugal and averse to going into debt. They are eager to learn and try a variety of experiences so they can figure out what they are best at. This is also a generation that wants to make a difference.

Retailer Satisfaction Survey

Ace Hardware and True Value tied for the top spot among home improvement retailers, according to the J.D. Power 2019 Home Improvement Retailer Satisfaction Study. The two retailers tied for first with a score of 840 on a 1,000-point scale. Lowe's was third with a score of 834. The overall score is based on performance in five areas: Merchandise, Price, Sales and Promotions, Staff and Service and Store Facility.

Some of the key findings included:

41% of home improvement retailer customers responding to the survey said they have either researched or shopped online before visiting a store. Those customers spend an average of $620 more per year than people who just shop retail.

Home improvement retailer websites are the most popular sources of information for these online shoppers. Overall satisfaction with a home improvement retailer website is 821 on a 1,000-point scale, lower than satisfaction with manufacturer websites (832) image and video sharing websites (843) or social networking sites (869).

Customers are willing to wait for two minutes for assistance in a store; when they are served within two minutes, there is an increase of 67 points on overall customer satisfaction scores. However, retailers provide assistance within two minutes just 26% of the time, down 2% from last year's study.

One of the reasons the top-ranking retailers stood out was the ability of staff to consistently and thoroughly explain product features. Ace and True Value both performed significantly above the study average in this indicator.

Total sales for home improvement products are expected to reach $420 billion this year, up 5% from 2018, according to *Chain Store Age.* The study was based on responses from 2,433 customers who purchased home improvement-related products from a home improvement retailer within the previous 12 months and was fielded in January and February 2019.

The Battle for Low-Income Shoppers

Amazon is working harder to attract low-income customers, one of Walmart's strongest customer groups. *The Washington Post,* which is owned by Amazon CEO Jeff Bezos, reported that Amazon is targeting low-income customers with new offerings, including a credit card for those trying to establish or rebuild their credit, half-price Prime memberships for people on some government aid programs and a way for consumers to reload their online accounts with cash at convenience stores. Walmart execs recently said that an estimated 18% of the country's food stamps had been redeemed at Walmart stores, which would equal about $13 billion in annual sales. Walmart also offers check cashing, bill paying and other financial services for shoppers without bank accounts or credit cards and recently brought back their holiday layaway program. Consumers with household incomes of less than $50,000 do about 3.4% of their shopping online compared with 9.7% of households with incomes of more than $50,000, according to economists at Stanford University. And just 31% of those with an annual income less than $25,000 are members of Amazon Prime, compared to 60% of households making more than $150,000.

Speedy Delivery Competition

Walmart and Amazon are both working on ways to get packages to customers in one day or less. Walmart is determined to best Amazon when it comes to speedy delivery, according to a recent article in *Business Insider.* Walmart has filed 97 new drone patents with the World Intellectual Property Organization since July 2018. Amazon registered 54 new drone patents in the same time period. The range of the average drone is about 15 miles; around 90% of Americans live 15 minutes or less from their nearest Walmart store. Amazon's drones could soon be delivering packages under five pounds. The fully electronic self-driving drones can fly up to 15 miles and deliver a package in under 30 minutes.

Digital Ad Spending and Shopping Trends

Amazon's advertising revenue will reach $40 billion by 2023, up 470% from 2018, driven primarily by artificial intelligence and machine learning. *MediaPost* reports that Juniper estimates that the total ad spend on digital advertising will reach $520 billion by 2023, up from $294 billion this year. They estimate that the US ecommerce marketplace will surpass $129 billion this year, which would mean that Amazon will account for about 20% of all US retail ecommerce in 2019. EMarketer reported that 78% of US digital shoppers consider Amazon their favorite place to buy and shop online today, with 56% of them saying they would like to shop and buy more on Amazon in the future. Just 26% said they would like to shop more with Google. However, 47% of US digital shoppers said their favorite way to shop overall was in a physical store, and 42% said they would like to buy and shop more in real stores in the future. Voice enabled shopping, such as shopping with Google Assistant or Alexa, was reported as a favorite way to shop by just 2% of respondents today, but 6% said they would like to use voice platforms to shop more in the future.