BOSCH

Market Briefing

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US ECONOMY

Exchange Rates June 30, 2020

Euro	1 Euro = $1.123	$1.00 = 0.890 Euros
Canadian Dollar	1 CAD = $0.734	$1.00 = 1.362 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 107.784 Yen
Chinese Yuan	1 Yuan = $0.142	$1.00 = 7.065 Yuan
Mexican Peso	1 Peso = $0.043	$1.00 = 23.080 Pesos

Market Watch June 30, 2020

DOW	25,813	1.7%
NASDAQ	10,059	6.0%
S&P 500	3,100	1.8%

All three indexes remained in the black in June and the markets turned in the best quarter in decades, as government stimulus and low interest rates coupled with strong economic data helped markets bounce back from pandemic damage. The Dow Jones industrial average posted its strongest quarter since 1987, jumping 17.8% over the past three months. The S&P, the index most followed by economists, rose nearly 30% in the second quarter, its best quarterly gain since 1998 leaving the index only 9% off its February high. The tech-heavy Nasdaq rallied 30.6% in the second quarter, the best quarterly performance since 1999.

Consumer Spending Rises 8.2%

Consumer spending increased by a record 8.2% in May after plunging 12.6% in April and 6.6% in March. The sharpest increase was a 29% jump for durable goods such as autos. Spending on nondurables rose nearly 8% and spending on services rose more than 5%. Inflation edged up just 0.1% and is up a mere 0.5% over the past year, well below the Fed's target of 2%. Personal income dropped 4.2% after increasing a stimulus-supported 10.5% in April. The federal government has pumped nearly $20 billion a week into the economy, with additional payments to the unemployed and business programs helping the economy stay afloat. The extra $600 a week in aid to the unemployed expires at the end of July, and there is no indication now that those benefits will be extended. Consumer spending accounts for 70% of US economic activity.

Consumer Confidence Rises to 98.1

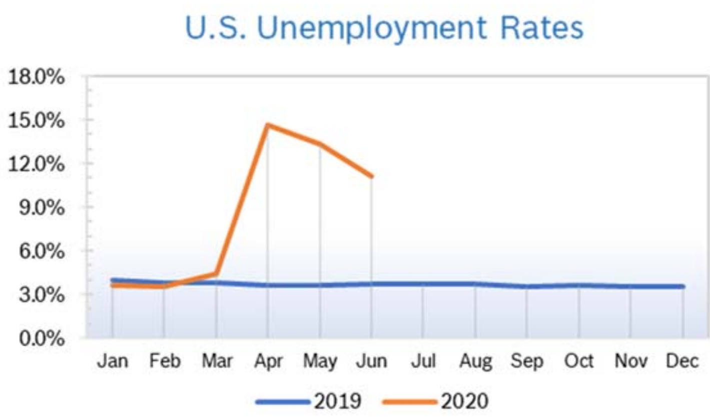
- The New York-based Conference Board's Consumer Confidence Index rose to 98.1 in June after being virtually unchanged at a downwardly revised 85.9 in May.*
- The Present Situation Index, which is based on consumers' assessment of current business conditions, rose to 86.2 from a downwardly revised 68.2 in May.
- Expectations rose to 106.0 in June after rising to 96.9 in May and has been above 90 for three consecutive months.
- Other forward-looking measures improved as well, with consumers more optimistic about the long-term outlook.

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

Consumer Prices Fall 0.1%

The Consumer Price Index (CPI) fell 0.1% in May after falling 0.8% in April and was up just 0.1% year over year after being up 0.3% year over year in April. Excluding the volatile food and energy components, the CPI slipped 0.1% in May after decreasing 0.4% in April, the largest drop since the series started in 1957. The core CPI fell in March for the first time since January 2010. May marked the first time that the core CPI has dropped for three consecutive months. In the 12 months through May, the core CPI rose 1.2%, the smallest gain since March 2011. The Labor Department said in-store data collection had remained suspended since March 16 because of risks of exposure to CV19. The department added that data collection last month was also impacted by the fact that many establishments were closed or operating under restrictions that caused prices to be temporarily unavailable. Many indexes are being based on less data than usual, and a small number of indexes that are normally published were not published at all in May.

Unemployment Rate Drops to 11.1%



- The unemployment rate fell more than two percent in June, falling to 11.1% after dropping to 13.3% in May and the economy added back a record-setting 4.8 million jobs after gaining an upwardly revised 2.7 million jobs in May.*
- Gains were well above expectations. Gains were equally balanced between full-time and part-time jobs. Leisure and hospitality saw the biggest gains, adding back 2.1 million jobs. Retail added 740,000 jobs.
- Numbers reflect surveys in mid-June, and do not reflect the roll-backs occurring in many states as CV19 cases surge.

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

Job Openings Continue to Fall

The number of job openings dropped again in April, falling by 965,000 jobs to 5.0 million after falling to 6.2 million in March, according to the most recent Job Openings and Labor Turnover Survey (JOLTS) from the US Bureau of Labor Statistics (BLS). Layoffs and discharges decreased by 4.8 million in April after jumping by 9.5 million in March. The layoffs and discharges rate fell to 5.9% in April after hitting a record high of 7.6% in March. Hires dropped to a series low of 3.5 million. Layoffs and discharges increased by 85,000 in construction and 338,000 in retail. The BLS warned that the pandemic is affecting their ability to collect reliable data.

Chicago PMI Rises to 36.6

The Chicago Purchasing Managers Index (Chicago PMI) inched up to 36.6 in June after falling to 32.3 in May. It was the twelfth consecutive sub-50 reading for the index. Among the five indicators, Production and New Orders saw the largest monthly gains, while Supplier Deliveries and Employment fell back. New Orders rose for the month but was down 20.1 points for the quarter. Production saw the biggest jump in June, rising by 10.1 points, but remained at a series low for the quarter. Prices Paid rose 2.7% in June but fell 4.9% on a quarterly basis. Many companies noted the elevated cost of air freight from Asia. The special question asked in June regarded personnel plans for the rest of the year. The majority (55.8%) plan a hiring freeze and 23.3% expect to lay off employees. However, 18.6% plan to expand their workforce. Looking all the way back to when the series began in 1967, the PMI has ranged from 20.7 in June 1980 to 81.0 in November 1973.

Wholesale Prices Rise 0.4%

The Producer Price Index (PPI) rose 0.4% in May after falling 1.3% in April. In the 12 months through May the PPI has fallen 0.8%. Core producer prices, which exclude food, energy, and trade services, fell 0.1% in May after plunging 0.9% in April and were up 0.3% year over year. May's gain in wholesale prices helped alleviate concerns that deflation could set in.

Q1 GDP Shrinks 5.0%

The first-quarter drop in Q1 GDP was unrevised at 5.0%, according to the third and final reading from the Commerce Department, which initially reported a 4.8% drop in Q1 GDP. The economy was shut down for just two weeks during the first quarter; economists believe GDP plunged about 30% during those two weeks. Analysts expect GDP to take a much bigger hit during the second quarter. While overall GDP was unchanged, the composition shifted slightly, with downward revisions to consumer spending, exports and business inventories offset by an upward revision to business investment.

Fed Pledges Low Rates, Support

The Fed made no major policy changes at their meeting in early June, but is prepared to do whatever it takes to support the US economy, promote maximum employment and assure price stability. The FOMC sees real GDP contracting 6.5% in 2020 and expects the unemployment rate to still be above 9% in the fourth quarter. They look for GDP to rebound about 5.0% in 2021 and expect unemployment to end the year at 6.5%. The rate of PCE inflation is expected to remain well below the Fed's target of 2% through 2022, which means there would be no need for the Fed to hike rates through 2022.

US Economy in Recession

The longest expansion (more than ten years) on records dating back to 1854 came to an end in February as the economy officially entered a recession, according to The National Bureau of Economic Research (NBER). The NBER, a private research group led by the nation's top economists, has long been considered the official arbiter for determining when business cycles start and end. A recession is typically defined as two straight quarters of negative GDP, but the NBER has leeway to take into account the depth of a contraction, how quickly it occurs and how much of the economy is affected. With all states reopening again to some degree or another, analysts say the economy has probably started to recover, and technically a new expansion might already be underway, which would make it one of the shortest recessions on record.

HOUSING & CONSTRUCTION

Builder Confidence Jumps to 58

Builder confidence jumped 21 points to 58 in June after rising seven points in May, according to the Association of Home Builders/Wells Fargo Housing Market Index (HMI). According to NAHB, housing is well-positioned to lead the economic recovery. Inventory is tight, interest rates are low, mortgage applications are increasing and confidence is picking up. Buyer traffic more than doubled from May and builders report increasing demand for single-family homes in inner and outer suburbs with lower density neighborhoods. All the HMI indices posted gains in June for the second consecutive month. The HMI index gauging current sales conditions jumped 21 points to 63, the component measuring sales expectations in the next six months rose 22 points to 68 and the component charting traffic of prospective buyers also rose 22 points, to 43. **Regional scores rose in every region,** with scores surging 31 points in the Northeast as states that had been shut down began to reopen. Any number over 50 indicates that more builders view the component as good than do as poor.

Building Permits Rise 14.4%

Building permits rose 14.4% in May to a 1.22 million unit annualized rate after falling to 1.07 million units in April. **Single-family permits increased 11.9%** to a 745,000 unit rate, and multifamily permits rose 18.8% to a 475,000 unit pace. **On a year-to-date-regional basis, permits were mixed.** Single-family permits are up almost 2% on a year-to-date basis and builders are reportedly bringing back thousands of workers laid off in March and April in order to meet renewed demand.

Housing Starts Rise 4.3%

Housing starts rose 4.3% in May to a seasonally adjusted annual rate of 974,000 units after falling sharply to 891,000 units in April. **Single-family starts inched up 0.1%** to 675,000 seasonally adjusted annual units after an upwardly revised April reading. Multifamily starts jumped 15.0% to a 299,000 pace after falling sharply in April. Regional starts were mixed. NAHB says there is an underlying long-term positivity in the housing industry that will support a rebound and housing is poised to lead the economy into recovery.

New-Home Sales Rise 16.6%

New-home sales rose 16.6% in May to a seasonally adjusted annual pace of 676,000 units from a downwardly revised reading in April. Sales were well above expectations and 12.7% ahead of the pace of May 2019. Sales were up 1.9% year to date. The biggest declines in sales were in the hard-hit Northeast and West. Inventory fell to a 5.6 months' supply, with 318,000 new single-family homes for sale, 16.4% below May 2019. The number of homes completed and ready to occupy fell by 2,000 to 76,000. The median sales price rose to $317,900 from $303,900 in April and was up from $312,700 in April 2019. **Regional new home sales rose in all four regions.** Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

Existing Home Sales Fall 9.7%

Existing home sales fell 9.7% in May to a seasonally adjusted annual rate of 3.91 million after dropping to 4.33 million in April. Existing home sales were down 26.6% from May 2019. The National Association of Realtors (NAR) noted that May numbers reflect sales during a time when a great deal of the country was under stay-home orders, and sales should pick up in the coming months. Wells Fargo commented that the South and West accounted for the bulk of sales gains, reflecting the migration to more affordable markets. The median home price was $284,600, up 2.3% from May 2019, marking 99 consecutive months of year-over-year gains. Total housing inventory at the end of May totaled 1.55 million units, up 16.2% from April and down 18.8% from May 2019. Unsold inventory is at a 4.8-months' supply at the current sales pace, up from 4.1 months in April and 4.3 months in May 2019. The relative weakness in condo and co-op sales, which fell 12.8% in May after plunging 26.4% in April, may reflect a potential movement away from large cities to smaller markets. It was the lowest pace of condo and co-op sales since the series began in 1999. **Regional existing homes sales year over year fell in all regions.** The NAR expects a slow and gradual recovery, aided by continuing low mortgage rates.

Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence	48 (+31)	62 (+20)	32 (+7)	44 (+12)
Building Permits YTD	-14.8%	+0.2%	-6.2%	-2.7%
Housing Starts Y/Y	-6.7%	-0.2%	+1.7%	+4.7%
New Home Sales	+6.8%	+0.3%	+9.5%	+1.4%
Existing Home Sales	-13.0%	-8.0%	-10.0%	-11.1%

Mortgage Rates Fall to 3.13%

- A 30-year fixed-rate mortgage (FRM) inched down to 3.13% at the end of June after falling to 3.15% at the end of May. Mortgage rates were at 3.73% at the end of June 2019.
- Freddie Mac notes that after the Great Recession it took more than ten years for demand to rebound to pre-recession levels, but during the corona-crisis it took less than ten weeks.
- The rebound in purchase demand partly reflects deferred sales as well as continued interest from prospective buyers looking to take advantage of the low mortgage rate environment.

POWER TOOL INDUSTRY

Stanley Black & Decker

UBS Global Industrials & Transportation Conference: SB&D was represented by CFO Don Allan at this virtual conference.

SB&D revised their guidance upwards for the second time in two weeks, stating that they had originally planned for business to be down a potential 35% to 45% for the full quarter; at the time they made that forecast they were through the first four weeks of April and were down about 40% in shipments and revenue.

BOSCH Invented for life

At a conference two weeks later they projected that they would be down between 20% and 30% based on continued strength in POS in US retail and outstanding performance from the Security business.

June 3 they revised their guidance again, and stated they expect organic revenue to decline just 15% to 20%. They believe the inventory corrections they were dealing with that were being caused by a few customers were behind them and with POS matching shipments and revenue they felt comfortable upwardly revising their guidance. They now expect Security to be down 10% rather than the 25% originally forecast and are seeing strong performance in Tools and Storage sales.

Their Q2 earnings call will be July 30, and they will provide more color at that point, as well as an outlook for the second half of the year.

The current strength they are seeing in US retail is being driven by DIY activity. One of the areas of uncertainty is how long that will continue once people start to go back to work, kids are out of virtual school for the summer and the family has more options for how to spend their time.

They feel very good about inventory levels in Tools, and think they got through the destocking in US retail very quickly in April and early May.

Within Tools there is a little bit of a negative mix because of the DIY component, with brands like Black & Decker selling through at much higher levels than you would normally see. They are at a slightly lower level of profitability. Craftsman is selling very strongly; that brand covers DIY consumers as well as tradesmen and Pros. That profitability is close to line average. Stanley and Stanley Fatmax brands are at or above line average.

They think there are two or three really big opportunities that will come out of all this. One is ecommerce. They are on many ecommerce platforms as well as on the platforms of their major retail customers.

They are looking at a very big ecommerce launch sometime next year for the Black & Decker brand.

There are certain countries around the globe where their Tools business is not as strong as they would like it to be, so that is a very big opportunity.

The Pros are just beginning to come back to work, so that activity will pick up. They think that commercial real estate construction will be sluggish, especially since so many companies are looking at reducing their footprint and having more people work virtually.

Security has been strong, but they stopped short of saying they'd decided to keep the business; they have been considering selling it for quite some time.

They are seeing some commodity deflation that is offsetting some of the headwinds they've dealt with coming from inflation, tariffs and commodities.

They think they could be looking at really robust gross margin and operating margin rates once they get past the downturn and start to grow again

They want to move about $1 billion in cost that they currently manufacture in China to various countries, with a heavy weighting to Mexico and the US.

Other News:

SB&D made its first appearance on the 100 Best Corporate Citizens ranking, coming in #45 overall and #6 in the Capital Goods Industry category. The ranking is based on 141 environmental, social and governance (ESG) transparency and performance among the largest 1,000 US public companies. SB&D says their strategy focuses the company's efforts on three key pillars: empowering makers, innovating with purpose and creating a more sustainable world. The Ranking debuted in 1999; the top 1000 companies by size is based on the Russell 1000 Index.

Metabo HPT

Joe Leffler is the new CEO and President of Metabo HPT, a subsidiary of Kiki Holdings, formerly part of Hitachi. Hiro Yumoto will become interim COO of the Americas and will continue to serve as the chairman of the board of Koki Holdings America. Leffler was previously COO and General Manager for Metabo HPT; he has been with the company since 1994. According to Leffler, Metabo (formerly Hitachi) offers an extensive line of professional grade power tools and accessories for woodworking, metalworking, drilling and fastening, concrete drilling and cutting and outdoor power equipment. They also produce a complete line of pneumatic nailers, staplers, compressors and collated fasteners.

RETAIL

Retail Sales Jump 17.7%

Retail sales jumped a record 17.7% in May after dropping a downwardly revised 14.7% in April and 8.7% in March. Sales were down 6.1% from May 2019 and off just 8% since February, the last month not affected by the pandemic. The increase was more than double what economists were expecting, and likely was aided by the $3 trillion in rescue funds that the federal government has provided to companies and households. Core retail sales, which exclude automobiles, gasoline and sales at building and supply stores and factor into calculations for GDP, rose 10.6% in May after falling 16.2% in April but are still 3.3% below the March high. Core retail sales were up 2% year over year after being down 7.2% in April. Sales were up in all categories. Sales at building and supply stores rose 10.9% after falling 3.4% in April and were up 14.4% from May 2019. Online sales rose 9% after growing 9.5% in April. Retail sales account for roughly half of all consumer spending; consumer spending accounts for about 70% of US economic output. Essential retailers, which include Walmart, dollar stores and home centers, had robust sales for the three months that ended in May; profits for that group were $8.9 billion for the quarter, down just slightly from $9.1 billion a year ago. A group of 35 nonessential retailers, including department stores, had combined losses of $2.5 billion for the three-month period that ended in May.

Retailers Respond to Civil Unrest

Many retailers closed stores or shortened store hours as protests that began as peaceful demonstrations devolved into violence, with looting and destruction that spread across the country in the aftermath of the death of George Floyd on May 25 at the hands of four Minneapolis police officers. Apple, Target, CVS, Walmart and Amazon were among the retailers taking action to protect employees and customers. Amazon remained open but restricted deliveries, working with local officials to adjust deliveries by zip codes.

Retailers Reward Front Line Employees

Amazon, Lowe's, Walmart and other major companies announced bonuses for employees working on the front lines during the pandemic at the end of June as cases were surging once again in much of the country. In total, Amazon will award more than $500 million in bonuses, and Lowe's will reward associates with bonuses totaling $100 million. Walmart and Target also announced another round of bonuses, and Target said it is permanently increasing their minimum wage to $15 an hour beginning July 5.

The Home Depot

RBC Global Consumer & Retail Conference:

CFO Richard McPhail represented THD at this virtual conference.

There were distinct phases to the quarter; the first seven weeks were strong. Then as shelter in place orders were rolled out across the country they were one of the first retailers to implement significant restrictions on traffic to ensure the safety of customers and employees and sales reflected that.

The measures they took eliminated about 25% of their operating hours each week. Steps taken included limiting the number of customers allowed in stores and closing at 6 pm to allow for thorough cleaning which removed about 25% of their operating hours each week.

They also intentionally restricted traffic in other ways, including cancelling their annual Spring Black Friday event. They explained that while it's not often that any business has a primary objective of keeping customers out of stores and limiting sales, it was the responsible thing to do.

In week 11 of the quarter, stimulus checks began to hit and they modified operations to open up new ways of serving customers that did not exist prior to CV19, including offering curbside pickup.

They saw sales rebound and comps accelerate back into double digits by the end of the quarter, with strength across most departments except for those requiring installation.

Larger Pros faced a number of headwinds. There were many municipalities that deemed Pro activity as nonessential. Pros had more challenges getting permits and inspections. Many customers were reluctant to have Pros in their homes. Underlying demand is still there; customers are not cancelling installations; they are postponing them. They feel the business from larger Pros will rebound when the pandemic recedes.

The pandemic caused people to focus on their homes, where they were often working, educating their children and spending so much more time. That renewed interest may continue as the nation moves forward.

It is impossible to predict how much of the massive surge in ecommerce will become part of the business on an ongoing basis, but the demand tested the site and their systems and demonstrated to them that the investments they'd made in beefing up the site were well worth it. For weeks on end they operated on a daily basis at a higher level of traffic than Black Friday and Cyber Monday.

If they had not made investments in their IT infrastructure they would never have been able to pivot and enable curbside pickup or develop an app within hours that could keep track of the number of customers inside each store in real time.

They have not seen anything to suggest customers are trading down.

Sanford Bernstein Strategic Decisions Conference:

Starting in mid-March they did calls with the field leadership twice a day, so that they were getting real-time feedback on conditions and what adjustments needed to be made. CEO Craig Menear also started an end of day recap with his direct reports so they could quickly make cross-functional decisions. In the pandemic environment, speed was critical and information was vital. They also relied on what Menear called their North Star, the Home Depot culture.

They had to figure out how to serve more customers in conditions with restricted occupancy and shortened hours, so they made a lot of changes in a very short period of time, including starting curbside pickup. They've now added back two hours of operation each day

There has been a definite resurgence of do-it-yourself as people tackle projects they've put off, spend more time at home and have other activities such as vacations, dining out and entertainment curtailed. They think some of the changes will remain going forward, such as the new emphasis on cleaning and cleaning protocols. They are getting requests from customers who want THD to help them figure out how to create a clean and touchless environment.

The opportunity now is more in products than in services, as people really don't want people in their homes unless it is absolutely necessary.

They paused some programs, promotions and investment spending that would have resulted in more people in the stores, because right now that is not a responsible thing to do.

When they extended their hours from closing at 6 p.m. to closing at 8 p.m. they had to deal with more than 600 different ordinances around the country. They needed to take a market-by-market, store-by-store approach to opening up and easing back into more normal operations. They have learned from all the disasters they have dealt with that customers yearn for some signs of normalcy even in the most dire of circumstances.

They are very focused on North America's $650 billion market. There is so much upside potential in North America they don't see any reason to worry about international markets.

When asked what he would like his legacy as CEO to be, Menear replied that he hoped people would say he was a great steward of the Home Depot culture and he was passionate about bringing innovative products to market.

Canada had some pretty severe restrictions; it was practically a total lockdown in Ontario. Mexico is a bit behind the US, in that the virus did not impact them as quickly. They are just beginning to implement recovery phases.

Their continued build out of their supply chain has been impacted, because it has been difficult to get inspectors out to sign off on things, so there have been a lot of delays.
There are categories of opportunity going forward that are going to change; they are pretty excited about the resurgence of DIY and the opportunities presented by cleaning standards changing forever and touchless environments.

Lowe's

Lowe's will pay out another $100 million in bonuses in July, with full-time hourly employees receiving a bonus of $300 and part-time and seasonal employees receiving $150. Lowe's says they have committed $450 million to their employees and communities since the pandemic began. They also gave employees an hourly pay bump of $2 per hour for the month of April, and in June announced $787 million in profit-sharing bonusses to their front-line associates.

Janice Dupre Little is Lowe's new evp human resources. She had been filling that role on an interim basis since April. She replaces Jennifer Weber, who's employment with Lowe's was terminated April 6.

Walmart

Walmart is partnering with Shopify to counter Amazon's third-party sales business, which is Amazon's fastest growing retail business. Walmart's third-party sales also outpaced first-party sales (i.e. Walmart's own sales) during the first quarter. Shopify provides ecommerce tools to more than one million businesses large and small, including PepsiCo and Heinz. Shopify sellers will now be able to list their items on Walmart's website. Walmart expects to add 1,200 Shopify sellers this year.

Walmart has surpassed eBay in share of ecommerce sales for the first time, according to May data from eMarketer. Amazon remains number one by a large margin, with 38% of all US ecommerce sales, followed by Walmart (5.8%) and eBay US (4.5%).

Ace Hardware

Ace Hardware is building a massive new warehouse in Plant City, Florida that will replace a nearly 50-year old facility in East Tampa. The new warehouse will nearly double their capacity. Warehouse development and leasing continues to be a major bright spot despite the pandemic and demand for warehouse space is expected to continue to increase as the pandemic and social distancing guidelines cause more shopping to move online. The distribution center will service more than 200 retail locations throughout Florida.

Amazon

Amazon plans to retain most of the US employees added to meet demand in March and April when so many Americans turned to online deliveries to meet their needs. They plan to give about 125,000 of the 175,000 temporary workers they hired the option to stay on full time.

Amazon's gains from the pandemic-driven shift to online commerce appear to be at least somewhat sustainable, according to *Barron's.* They think online sellers will continue to benefit from a decline in travel spending, growing numbers of store closures and customers who have tried ordering online and now enjoy the convenience.

Amazon's supply chain is reportedly returning to normal after weeks of delayed shipping times; one of their execs said that Black Friday arrived March 12 and never left, but after hiring 175,000 new employees, they are back up to near-normal flows. Keeping warehouse workers six feet apart means fewer workers in each warehouse and less efficient shifts.

Amazon will soon offer lines of credit to their US-based sellers through a new arrangement with Goldman Sachs. The line of credit will offer fixed interest rates between 6.99% and 20.99% and can be used for a variety of business purposes. Amazon will share merchant data with Goldman, which will then use business revenue data to underwrite the lines of credit.

Amazon plans to produce and sell hundreds of thousands of face shields at cost on Amazon.com. Amazon has already donated 10,000 face shields to medical workers and another 20,000 donations are planned. Amazon says it will be able to offer face shields at a significantly lower price due to design innovations and the capabilities of their supply chain. They will initially only be available to frontline medical workers, but eventually will be available to customers. Amazon is 3D printing some core components and repurposing many of their own manufacturing machines and facilities to create the gear. Amazon has been working with medical professionals to refine the design.

Amazon is adding 12 new planes to their cargo fleet, bringing the total number to 81 planes. One has been delivered; the remaining 11 will arrive in 2021. Amazon says that Amazon Air is critical to ensuring fast delivery for their customers. Amazon started their in-house air cargo operations in 2014, and employs thirteen pilots to fly their planes. UPS has 679 planes and FedEx has 564. Amazon delivered 3.5 billion packages globally last year, compared to FedEx (3.9 billion), UPS (5.5 billion) and USPS (6.2 billion).

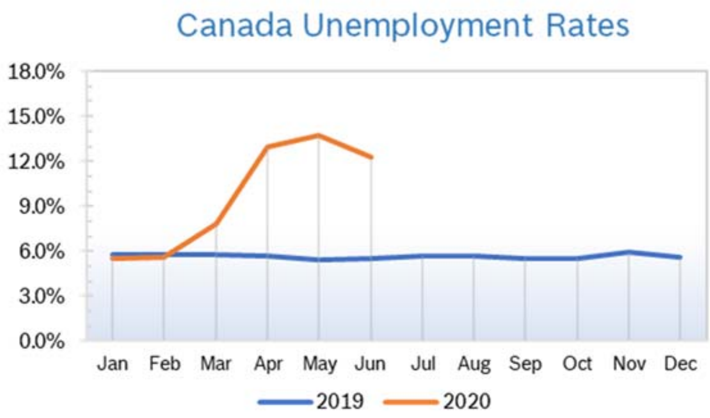
Amazon is in advanced talks to buy Zoox, a US-based developer of technology for self-driving cars. The deal would reportedly value Zoox at less than the $3.2 billion achieved during its last round of funding in 2018.

Amazon launched a Counterfeit Crimes Unit to combat counterfeit products on their website. The global team is made up of former federal prosecutors, experienced investigators and data analysts. Counterfeit crimes are becoming a bigger issue, with some large brands such as Nike no longer selling on the platform due to unlicensed and imposter sales. Amazon said they have invested more than $500 million to combat counterfeit fraud and have more than 8,000 employees fighting fraud and abuse on their platform. Reportedly, they have already blocked more than 2.5 million bad accounts before they sold a single product and also blocked more than 6 billion suspected bad listings in 2019.

Amazon CEO Jeff Bezos has agreed to testify before a House antitrust investigation into the market power of major tech companies alongside other chief executives from Apple, Facebook and Google. The Congressional investigation is part of a backlash among lawmakers and law enforcement against the power and reach of large tech companies. The House investigation has been in progress for more than a year.

CANADA SNAPSHOT

Unemployment Drops to 12.3%



- Canada's unemployment rate dropped to 12.3% in June after rising to 13.7% in May. Unemployment was 5.6% in February.
- Employment rose by 953,000 jobs, or 5.8%, in June, with gains split between full-time and part-time work.
- After two consecutive months of increases, employment was just 9.2% below the pre-pandemic level in February.
- Restrictions have been eased in most of Canada, but remain in place in much of southwestern Ontario, including Toronto.
- Among those who were employed and worked at least half of their usual hours, working at locations other than home increased by 2 million in June, while the number of Canadians working from home fell by 400,000. Total hours worked rose in most industries, led by construction (+19.0%); other services (+13.2%); wholesale and retail trade (+11.0%) and manufacturing (+10.9%).

Consumer Confidence Rises to 79.7

Consumer confidence climbed 16 points in June to 79.7, reaching roughly two-thirds of its pre-pandemic level, according to the Conference Board of Canada. Consumer confidence improved across all regions, with British Columbia showing the largest monthly increase among provinces (23.1 points), while Ontario posted the smallest uptick (9.3 points). 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 0.4%

The Consumer Price Index (CPI) dropped 0.4% year over year in May after dropping 0.2% in April, according to Statistics Canada. Prior to April, consumer prices had not fallen year over year since September 2009. Transportation prices contributed the most to the decline, primarily due to lower gas prices. Gasoline prices are expected to remain a drag on Canada's annual inflation rate. For the year, the Conference Board now expects consumer prices to rise just 1.1%.

GDP Drops 11.6% in April

Canada's GDP plunged 11.6% in April to 1.630 trillion Canadian dollars, roughly a 10-year low, according to Statistics Canada. The April plunge follows a revised 7.5% decline in March. The economy in April was 18.2% below the February level, the month before CV19 began to affect the economy. The record drop is not a surprise, and roughly in line with Statistics Canada's advance projection of a 11% decline. April marked the peak of economic damage; Canada began to relax certain restrictions in May, with the country's most populous province, Ontario, beginning to ease restrictions in June.

Interest Rates and Economic Outlook

Bank of Canada (BoC) maintained the key overnight interest rate at 0.25% in early June, and economists expect that the bank will stay the course for the foreseeable future.

Housing and Construction News

The annual pace of housing starts, excluding Quebec, fell 20.4% in May compared to April, according to Canada Mortgage and Housing Corp. (CMHC). Excluding Quebec, the annual pace fell to 132,576 starts in May compared with 166,477 in April as starts in Ontario slowed 40%. CMHC did not conduct their monthly starts and completion survey in Quebec in April following the introduction of pandemic measures in late March that brought construction in the province to a halt. The six-month moving average was 196,750 units, down from 198,644 in April. Permit issuance fell sharply in April. CMHC expects existing home sales to fall between 19% and 29% from their pre-pandemic levels before beginning to gradually recover in 2021.

Canada's home sales jumped 56.9% in May after dropping a record 57.6% in April but were still down 39.8% from May 2019, according to the Canadian Real Estate Association (CREA). April sales volume was the lowest on record due to the effects of CV19 measures. According to CREA, there were 5.6 months of inventory available for sales at the end of May compared with 9 months at the end of April. The national average price for homes sold in May was $494,500, down 2.6% from May 2019. Excluding the Greater Vancouver and Greater Toronto areas, the average price was about $401,000. Generally speaking, small declines in prices have been seen in British Columbia while the decline in prices already occurring in Alberta accelerated. Prices across the rest of the Prairies have continued to stabilize.

Mortgage rates are expected to remain near historic lows until the economy shows signs of recovery, according to Can-Wise Financial Mortgage Brokerage. The BoC's current target for the overnight rate is a historic low of 0.25%. According to Ratehub.ca, the best five-year fixed rate today is 2.14%.

April Retail Sales Fall 26.4%

Retail sales fell 26.4% in April to $34.7 billion after falling to $47.1 billion in March. Statistics Canada noted that based on survey responses, approximately one-third of retailers were closed in April and the majority of those that remained opened did not offer in-store shopping. The decline was the largest on record and exceeded the 17.1% decline in the US, according to Statistics Canada. Like the US, sales were down in all 11 subsectors, representing 39.2% of retail trade. Sales were also down in all provinces. Retail sales in volume terms were down a record 25.2% in April, following an 8.2% decline in March, bringing total sales down by almost one-third (-31.3%) since the onset of the pandemic.

Retail Ecommerce Sales Soar

The CV19 pandemic led many Canadian retailers to start or expand their ecommerce platforms in April in response to physical distancing measures and brick and mortar store closures. On an unadjusted basis, sales accounted for a record high of 9.5% ($3.4 billion) of total retail trade in April. On a year-over-year basis, retail ecommerce more than doubled (+120.3%), while total unadjusted retail sales were down by close to one-third (-30.5%).When adjusted for basic seasonal effects, retail ecommerce grew 56.0%.

Retail Notes

Amazon delivery drivers in Canada launched a $200 million class action suit claiming that the vast network of subcontracted delivery drivers are actually Amazon employees who have not received adequate compensation, job protection and benefits. The suit was filed on behalf of at least 2,500 drivers employed by courier companies contracted by Amazon. The class action still needs to be certified by a court before it can proceed to trial. Lawyers say that should happen next year. The entire gig economy's employment model, which treats app-based workers as independent contractors, has come under increasing scrutiny in Ontario where the suit was filed.

Amazon plans to build a second fulfilment center in Ottawa, Ontario that will open in 2021. The center will create more than 1,000 full-time jobs. It will be Amazon's eighth facility in Ontario and their 14th fulfillment center in Canada. Amazon has invested more than CAD $7.5 billion in Canada and employs more than 13,500 Canadians full-time.

MARKET TRENDS

CV19 Changes Construction Practices

As states gradually reopen, contractors are being challenged to operate in ways that prevent the spread of the virus and to accept a slower pace of work as the "new normal," according to *Engineering News Record* (ENR). Companies are struggling to find enough personal protective equipment (PPE), ensure their workers are not sick, limit contact and compete for workers against stimulus-boosted unemployment wages. Some states are limiting crew sizes according to the square feet of the project, causing some large projects to split workforces into day and night shifts. There is also still a lot of hesitation to bring people back into an office environment.

NABE Forecast

US GDP will decline 5.9% on an annualized basis in 2020 but will increase 3.6% in 2021, according to the National Association for Business Economics' (NABE) latest survey. Panelists expect the hit to GDP to be the greatest in the second quarter, forecasting a 33.5% annualized quarter-over-quarter decline. About 87% believe the greatest threat to the economy would be a second wave of the coronavirus this year. About 89% agree that GDP will not return to pre-CV19 levels until the second half of 2021. About 84% expect there will be a reduction in US dependence on global supply chains.

Apprentice Programs Struggling

CV19 restrictions are forcing many apprenticeship and training programs to shut down or be severely limited. Programs are turning to online resources, on-the-job training and socially distanced classes to continue workforce development. Apprenticeship enrollment was at an all-time high in many states prior to the shutdown in March. Programs are trying to figure out how to reduce class sizes and allow for social distancing. Reportedly some programs are looking to jobsites for hands-on training. Schools are working at figuring out how to certify students as ready to work in chosen fields; online training is just not good enough to guarantee real world performance. Colleges are expecting class size limits to produce a decline in enrollment and longer waiting lists.

Home Building Trends to Low-Density Areas

Housing demand will continue to increase in medium-and low-density communities, according to NAHB's most recent Home Building Geography Index (HBGI). The HBGI is a quarterly measurement of building conditions across the country and uses county-level information about single- and multifamily permits to gauge housing construction growth in various urban and rural regions.

NAHB Chief Economist Robert Dietz says that construction growth expanded over the last year more quickly in low population density areas than in high-density regions. Dietz says the telecommuting trend accelerated by CV19 is only one contributing factor, as home construction was increasing at a higher rate in lower-density areas prior to the pandemic.

First quarter 2020 HBGI findings show:

Single-family construction expanded across all seven economic geographies, posting the strongest growth (9.1%) in outlying suburbs (exurbs) of small metro areas, as measured on a one-year moving average.

All economic geographies reported net growth over the past year for single-family and multifamily construction, a reminder of the momentum home building possessed before the current recession.

The first quarter HBGI also featured a new economic geography class based on local employment in the education and health services sector (EHS). Given the public health crisis associated with COVID-19, this sector is of critical importance. The HBGI designates EHS-focused regional markets as the top quartile of counties based on this employment share (25.7% or above of total employment). These counties also make up 23.2% of the U.S. population.

The analysis found that 12.4% of single-family construction and 18.4% of multifamily construction occurs in EHS markets. Multifamily construction has outpaced single-family construction in these markets over the past year, expanding at nearly twice the growth rate of the rest of the construction in EHS markets over the past year. Single-family construction is growing in EHS markets, but the rate is slower than in the rest of the nation.

J.D. Power Retailer Satisfaction Survey

Ace Hardware took the top spot for the 13th time in 14 years on J.D. Power's 2020 US Home Improvement Retailer Satisfaction Study. With a score of 844, Ace outranked Menards (841), Lowe's (838), True Value (832) and The Home Depot (827). The industry average was 834. According to the survey, the single factor with the greatest influence on the retail experience beyond inventory, prices or location is friendly, knowledgeable service with a smile, provided in two minutes or less. If customers have to wait five minutes, satisfaction scores tumble. The survey also revealed that online shoppers visit more brick and mortar retailers and also spend more money.

Customers who shop and/or research online before making a purchase spend an average of $500 more per year on home improvement than those who do not research online. These shoppers are also often more price sensitive and more likely to buy during a promotion or sale.

Additional J.D. Power research conducted in early April showed that 49% of US consumers say they are considering a home improvement project within the next three months. Of those, 61% say they plan to do the project themselves. The top projects on the wish list include painting (15%), lawn and landscape projects (14%) and starting a garden (12%).

Ecommerce Trends Change Retail

Ecommerce sales will grow 18% this year, according to the latest forecast from eMarketer, which previously forecast 13% growth. Retail sales overall are expected to drop 10.5% to $4.894 trillion. eMarketer says both outcomes are due to the impact of CV19, and that it may take years for the retail sector to recover. Retail sales dropped 8.2% in 2009 during the Great Recession. Experts say some ecommerce behaviors have vaulted into the future thanks to pandemic demand. These include online grocery shopping and buy online, pick up in store. The latest Adobe data shows ecommerce sales grew 77.8% year over year in May to $82.5 billion.

AI Tech Enforces Social Distancing

Amazon launched an AI-based tracking system to enforce social distancing in offices and warehouses in order to reduce any risk of anyone contracting CV19. The system, called Distance Assistant, uses camera footage in Amazon's building to help identify high-traffic areas. Monitors highlight workers keeping a safe distance in green circles, while workers who are too close together are highlighted in red circles.

Amazon is also testing a wearable device that lights up and makes an audio alert when workers are too close to each other at a warehouse outside Seattle. According to news reports, the device consists of a clear plastic sleeve and a clip that has an LED light and audio system embedded in it.

Amazon says they intend to make their new software freely available to other businesses. The pandemic has sickened more than 1,100 Amazon employees and killed at least nine.

Amazon has been hiring for roles like social distancing ambassadors and guardians. Several firms told Reuters that AI camera-based software will be crucial to staying open as it will allow them to show not only workers and customers but also insurers and regulators that they are monitoring and enforcing safe practices. Privacy activists have raised concerns about increasingly detailed tracking of people.

Global GDP Forecasts

The International Monetary Fund (IMF) has sharply lowered its forecast for global growth this year due to the economic damage being inflicted by CV19. IMF predicts that the global economy will shrink 4.9% this year, up from a predicted 3.0% drop issued in April. Other estimates are up as well from April. The US economy is now expected to drop 8.0% this year compared to the 5.9% drop estimated in April. GDP for Canada, whose largest trading partner is the US, is now expected to drop 8.4% compared to the 6.2% decline previously projected. The IMF noted that the pandemic was disproportionately hurting low-income households. The IMF expects growth to resume in 2021, with the global economy growing a downwardly revised 5.4%, the US economy growing a downwardly revised 4.5% and the Canadian economy growing an upwardly revised 4.9%.