Market Briefing

Content

US ECONOMY

Consumer Confidence Rises to 134.1

Consumer Spending Rises 0.3%

Consumer Prices Rise 0.3%

Unemployment Steady at 3.6%

Durable Goods Orders Fall 2.1%

Chicago PMI Rises to 54.2

Wholesale Prices Rise 0.2%

Q1 GDP Revised Down to 3.1%

HOUSING & CONSTRUCTION

Housing Starts Rise 5.7%
- Single-family starts rise 6.2%

Building Permits Rise 0.6%
- Single-family permits fall 4.2%

New-Home Sales Fall 6.7%

Existing Home Sales Fall 0.4%

Builder Confidence Rises to 66

Mortgage Rates Fall to 3.99%

POWER TOOL INDUSTRY

Robert Bosch
- Zero Net Carbon Emissions
- Investments in China
- Sells Robert Bosch Battery Systems

Stanley Black & Decker
- Electrical Products Conference
- Annual Analysts' Day
- Building massive factory in Texas
- Settles lawsuit with Sears

Trimble
- Q1 revenue rises 8%
- Introduces integrated smartphone

RETAIL

Retail Sales Fall 0.2%

The Home Depot
- Q1 sales rise 5.7%; comp sales rise 3%
- Q1 conference call with analysts

Lowe's
- Q1 revenue rises 2.2%; comp sales rise 3.5%
- Q1 conference call with analysts
- Acquires Retail Analytics

Walmart
- Q1 revenue rises 1%; comp sales rise 3.4%
- Introduces one-day delivery
- Pitches advertising platform
- Hires new CTO Suresh Kumar

Ace Hardware
- Q1 revenue rises 5.1%; comp sales rise 3.9%

Amazon
- Reveals plans for HQ2
- Partners with Ford
- Expands Amazon return program

CANADA SNAPSHOT

Economy

Housing & Construction

Retail

MARKET TRENDS

Robots in the Loading Dock

Full Warehouse Automation

The Warehouse Fulfilment Game

Devices that Recognize Emotions

CEO Security Measures

Insourcing Transportation

Retailing in the Age of Experiences

Bosch | **Dremel**

RotoZip | **Vermont American**

CST/berger | **freud** | **Sia**

Robert Bosch Tool Corporation
1800 W Central Rd
Mount Prospect, IL 60056 USA
www.boschtools.com
PTNA.Marketing@us.bosch.com

US ECONOMY

Exchange Rates May 31, 2019

Euro	1 Euro = $1.115	$1.00 = 0.897 Euros
Canadian Dollar	1 CAD = $0.740	$1.00 = 1.352 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 108.632 Yen
Chinese Yuan	1 Yuan = $0.145	$1.00 = 6.904 Yuan
Mexican Peso	1 Peso = $0.051	$1.00 = 19.667 Pesos

Market Watch May 31, 2019

DOW	24,815	-6.7%
NASDAQ	7,453	-7.6%
S&P 500	2,752	-6.6%

The markets all turned in their worst performances since January as looming new tariffs and an unexpected ultimatum to Mexico to stop illegal border crossings or face escalating tariffs that would threaten the recent trade deal with Mexico and Canada rattled investors and sent stocks plummeting. The Dow dropping 771 points during the last week of May, the sixth consecutive week of declines for the index.

Consumer Confidence Rises to 134.1

The New York-based Conference Board's Consumer Confidence Index rose to 134.1 in May after rising to 129.2 in April, 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, rose to 175.2 after rising to an upwardly revised 169.0 in April. The Expectations Index, which is based on consumers' short-term outlook for income, climbed to 106.6 after rising to 103.0 in April. The Conference Board stated that consumers expect the economy to continue growing at a solid pace into the summer months, which should support consumer spending in the near-term. Economists note that a level of 90 indicates that the economy is on solid footing and a level of 100 or more indicates growth. Analysts caution that the real driver behind consumer spending is income growth and that labor market trends are a more accurate predictor of consumer behavior.

Consumer Spending Rises 0.4%

Consumer spending rose 0.4% in April and the increase for March was revised up to 1.1%. Core consumer spending was unchanged in April after rising 0.9% in March. Consumer spending was up 1.3% year over year in the first quarter, the slowest quarterly growth in a year. Personal income rose 0.5% in April after inching up 0.1% in March. Savings increased to $990.3 billion in April from $963.7 billion in March. Inflation pressures remained low, with the personal consumption expenditures (PCE) price index excluding the volatile food and energy components rising 0.2% in April after edging up 0.1% in March. In the 12 months through April, the core PCE price index increased 1.6% after being up 1.5% in March, well below the Fed's preferred inflation reading of 2.0%.

Consumer Prices Rise 0.3%

The Consumer Price Index (CPI) rose 0.3% in April after rising 0.4% in March. The year-over-year CPI was up 2.0% in April, up from a 1.9% increase in March and 1.5% in February. Core inflation, which excludes food and energy, rose 0.1% for the seventh consecutive month. Core CPI was up 2.1% year over year, up from 2.0% in March.

Unemployment Steady at 3.6%

The unemployment rate held at a 49-year low of 3.6% in May but the economy added just 75,000 new jobs as hiring slowed significantly and was well below the 175,000 additional jobs forecast. Job gains for March and April were revised down by a net of 75,000 jobs. Since the start of the year, employers have added an average of 161,000 jobs compared to 223,000 in 2018. Wages were up 3.1% year over year in May, with wage gains stabilizing rather than accelerating in the tight labor market. 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 2.1%

Durable goods orders fell 2.1% in April after rising 2.7% in March. Orders ex transportation were steady after rising 0.4% in March. Core durable goods orders for non-defense capital goods excluding aircraft, widely regarded as a key indicator of business spending, fell 0.9%, nearly three times the decline expected, after rising a downwardly revised 0.3% in March. Nondefense capital goods shipments, which factor into GDP, were flat after falling a downwardly revised 0.6% in March. The durable goods report is volatile and often subject to sharp revisions.

Chicago PMI Rises to 54.2

The Chicago Purchasing Managers' Index (PMI) rose 1.6 points to 54.2 in May after dropping to 52.6 in April. New Orders increased for the first time in three months, but did not rise enough to offset the drop in April. Production rose, but remained significantly below the 12-month average. Order Backlogs fell into contraction for the second time this year. The contraction in Order Backlogs is evidence of lukewarm demand. The special question asked in May concerned the impact of supply side issues on business operations. About half of the respondents were unsure about the impact while 40% said they were adversely impacted by supply side issues, mentioning that tariffs and delays added to costs and made them less competitive. MNI Indicators noted that they expect business confidence to be weaker in Q2 than it was in Q1, but says conditions are still "not bad." The PMI averaged 60.1 in the first quarter, down 3.5% from the fourth quarter and 3.3% from the first quarter of 2018.

Wholesale Prices Rise 0.2%

The Producer Price Index (PPI) rose a modest 0.2% in April after jumping 0.6% in March. The PPI was up 2.2% from April 2018. Analysts had expected prices to rise 0.3%. Core producer prices, which exclude food, energy and trade services, rose 0.4% in April after being flat in March and were up 2.2% from April 2018 after being up 2.0% in March 2018. Analysts noted that tame inflation reinforced the Fed's decision to put off increasing interest rates.

Q1 GDP Revised Down to 3.1%

GDP growth was revised down to 3.1% for the first quarter from the 3.2% first reported, according to the second reading from the Commerce Department. Weaker business spending and a steeper drop in housing were behind the slight downward revision, which matched economists' expectations. Consumer spending increased 1.3%, a slight upward revision from the 1.2% first reported. Residential construction dropped 3.5% rather that the 2.8% first reported. Inventory building has really boosted GDP, with the three largest quarterly inventory builds during the past three and a half year occurring in the past three quarters. Without the boost from inventories, GDP growth in Q1 would have been just 2.5%. Inflation, as measured by the personal consumptions expenditure index (PCE), fell to a 1.4% annual rate in the first quarter from 1.9% in the fourth quarter of 2018. Core PCE slipped to 1.7% from 1.9%, below the Fed's target of 2.0%. Consumer spending accounts for more than two-thirds of US economic activity.

Job Openings Rise 4.8%

The number of job openings rose 4.8% in March to 7.5 million after dropping to 7.09 million in February, according to the most recent Job Openings and Labor Turnover Survey (JOLTS). There are now 1.2 million more open jobs than there are unemployed Americans. Total hiring has not increased as much as job postings have, which suggests that employers are struggling to fill jobs with qualified candidates. Job openings have gone up 8.6% in the past year, while total hiring in the JOLTS report has barely increased. In addition, the quits rate remains well above last year's figure, although quits fell 1.1% in March to 3.4 million. The combination of many people quitting their jobs and rising numbers of job openings can create a climate in which employers feel forced to increase wages, improve benefits and try other tactics to attract and keep employees.

HOUSING & CONSTRUCTION

Housing Starts Rise 5.7%

Housing starts rose 5.7% in April to a seasonally adjusted annual rate of 1.24 million units from an upwardly revised reading in March. **Single-family starts rose 6.2%** to 854,000 units after falling to 785,000 units in March and multifamily starts rose 4.7% to 381,000 units. **Regional starts were mixed.** Combined single-family and multifamily starts year to date rose 84.6% in the Northeast and 42% in the Midwest. Starts dropped 5.7% in the South and 5.5% in the West.

Building Permits Rise 0.6%

Building permits rose 0.6% in April to an annual rate of 1.3 million units after falling to 1.27 million units in March. Single-family permits fell 4.2% to 782,000 units, the lowest level since October 2016. Multifamily permits rose 8.9% to 514,000 units. **Regional permits were mixed.** Year to date, permits rose

2.2% in the Midwest and 5.3% in the West. Permits fell 4% in the Northeast and 1.2% in the South.

New-Home Sales Fall 6.7%

New-home sales fell 6.7% in April to a seasonally adjusted annual rate of 673,000 units after March sales were revised sharply upwards to 723,000 units, the highest monthly rate since the Great Recession. The inventory of new homes for sale was 332,000, a 5.9-months' supply at the current sales pace, a number that has remained fairly steady since December. The median sales price rose to $342,200 in April after dropping to $302,700 in March. The median sales price in April 2018 was $314,400. **Regional new home sales were mixed.** New home sales rose 1.3% in the Midwest, 6.7% in the West and 10.3% in the South. Sales fell 17.6% in the Northeast. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

Existing Home Sales Fall 0.4%

Existing home sales fell 0.4% in April to a seasonally adjusted annual rate of 5.19 million after falling to 5.21 million in March. Sales were down 4.4% from April 2018, and have fallen in five of the previous six months. Much of the decline in sales was due to a 1.1% drop in single-family sales; condo and co-op sales were up 5.6%. **Regional sales were mixed.** Sales fell 4.5% in the Northeast and 0.4% in the South. Sales were unchanged in the Midwest and rose 1.8% in the West. Unsold inventory is at a 4.2-month supply at the current sales pace, up from 3.9 months in March and 4.0 months in April 2018. The median existing home price for all housing types in April was $267,300, up from $259,400 in March and up 3.6% from April 2018. It was the 86th 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 Rises to 66

Builder confidence rose four points to 66 in May after rising to 63 in April, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). Builders report solid demand for new single-family homes and improved demand due to interest rate that are hovering just above 4% after peaking near 5% in the fourth quarter. Scores for the HMI components all rose. The index measuring current sales conditions rose three points to 72, the component gauging expectations in the next six months rose one point to 72 and the component for buyer traffic rose two points to 49. **The three-month moving averages for regional HMI scores all rose** as well, with the Northeast rising six points to 57, the West increasing two points to 71, the Midwest gaining one point to 54 and the South rising one point to 68.

Mortgage Rates Fall to 3.99%

A 30-year fixed-rate mortgage (FRM) fell to 3.99% at the end of May after rising to 4.20% at the end of April. Rates were 4.56% at the end of May 2018. Freddie Mac expects rates to average 4.5% this year and 4.8% next year. While economic data points to continued strength, financial sentiment is weakening, with the spread between the 10-year and the 3-month Treasury bill narrowing as fears of the impact of the trade war with China grow. Freddie Mac noted that lower rates should give a boost to the housing market.

POWER TOOL INDUSTRY

Robert Bosch

Bosch aims to produce zero net carbon emissions by 2020, which would result in Bosch being carbon-neutral. They also plan to spend $2.2 billion on renewable electricity over the next decade. Volkmar Denner, the chairman of the board of management, told attendees at their annual press conference that unavoidable emissions will be compensated by investments in environmental projects, the group's operations will be made more energy efficient and they will also buy more renewable electricity.

Bosch CEO Volkmar Denner told Chinese Information Service Xinhaua that Bosch intends to keep investing in China and foresees long-term growth. Sales in China have nearly tripled to more than $44.9 billion US in the last five years. Denner said that Bosch's growth is being driven by technology and mobility solutions and that China is the second largest market for Bosch after Germany.

Bosch sold manufacturing and testing assets for high-voltage battery systems from Robert Bosch Battery Sys-

tems to American Battery Solutions, a newly formed company founded by KCK Group and Dhar, longtime innovators and industry leaders in the development and commercialization of energy storage. Terms of the sale were not disclosed, but KCK Group has committed more than $50 million in capital to the enterprise focused on bringing electrified mobility battery systems to new emerging transportation, industrial and commercial segments.

Stanley Black & Decker

SB&D provided strategic updates during their 2019 Investor Day and at the Electrical Products Group Conference:

CEO Jim Loree described the Craftsman acquisition by saying they paid $900 million dollars for nine letters and three people.

In the last two years since acquiring the Craftsman brand they've created what will be a $600 million business this year and a huge commercial program with Lowe's, Ace and Amazon. They will have more than 10,000 outlets selling Craftsman by 2021, and Craftsman will be producing at least $1 billion in revenue, about six years ahead of schedule.

The Amazon launch of Craftsman will be implemented within the next 90 days. There are only about 30 SKUs that overlap with Lowe's where they have had to carefully monitor supply constraints. They have had long conversations with Lowe's and are doing everything they can to maximize Lowe's implementation. Lowe's stores that have already been reset were described as "painted red."

The Craftsman team drove more than 2,500 user-generated stories around My Craftsman Story, a launch event with bloggers and vloggers that created over 94 million online branded impressions and 260,000 additional subscribers to their all new Craftsman Club. Their Craftsman products have an average advocacy rating of 4.6 out of 5.

FlexVolt is now more than $300 million and growing in double digits.

Two new programs, the 12-volt DeWalt Xtreme and the 20-volt DeWalt ATOMIC, are rolling out now. The products will deliver the highest power-to-weight ratio ever manufactured by anyone. The ATOMIC products are essentially the same size and weight as competitive 12-volt products but deliver 2.5 times the power output. The Xtreme line offers the smallest and most powerful 12-volt power tools ever produced. So they have captured the smallest and most-powerful slot, along with the highest power output. When they bought DeWalt ten years ago it was about a $1 billion brand; today it is the world's largest tool brand at $5 billion.

They are about halfway through the Lenox and Irwin synergies; when they are done, that should be about $150 million.

The Home Depot is now the exclusive outlet for Stanley brand products and Stanley FatMax.

They are using MES systems, IoT, connected factory, robotics and cobotics (humans and robots working together) to get smarter about what they are doing, what things should cost and what they are paying vendors. One of the most interesting elements is a digital twin approach, where they digitally simulate the factory in virtual space, then when they want to change something, they can see how it plays out before they make a move.

Ecommerce is their number one growth opportunity. They want to become number one in the tool segment for ecommerce by partnering with key customers and by deploying an omnichannel strategy that will help them lead the global marketplaces. They also see ecommerce as the opportunity for exponential growth in emerging markets. To that end, they have hired more than 150 digital and ecommerce experts across all their markets. So ecommerce is a global strategy executed locally in every single market.

They launch five new products every day and sell 100 products every second. They are moving to achieve 60% local manufacturing in the US, North America, Europe and emerging markets.

Their industry 4.0 initiative today is focused on what they manufacture. Two or three years from now, they expect to have accomplished those goals and be able to pivot toward their supply base. Then they will start to require their large suppliers to come into the US and manufacture here as well. They will assist them with getting to the same kinds of cost levels that they were able to achieve using their new Manufactory 4.0 and their capability and competence in advanced manufacturing.

CEO Jim Loree said his macro outlook was much more pessimistic in January than it is now; they no longer foresee a recession in the second half of this year. They think that the Fed has calmed the waters and the trade dialogue seems to be less combative and more promising.

Over time they will make progress toward their goal of 10 turns; right now they are being somewhat held back by the inventory needed to facilitate the Craftsman ramp up. They will have about 20 plants up and running with Industry 4.0 by the end of 2019, and that will grow to 97 plants over the next three years.

They have not seen any consumer reaction to the tariffs; no rush to stock up or buy ahead.

Other News:

SB&D is building a new manufacturing plant in Fort Worth, Texas that will be one of the largest factories in the company's network. Adding a facility this size is rare, according to SB&D. The $90 million manufacturing plant will employ 500 people and produce Craftsman sockets, ratchets and wrenches. Groundbreaking will be later this summer, with the 425,000-square-foot facility expected to be up and running by late 2020. The new plant will also use some of the most advanced manufacturing technologies available to increase productivity and sustainability as well as improve yield by nearly 25%. The facility will be their focal point for their 4.0 smart factory initiative, and house a team of 50 industry experts

Stanley plans to move more Craftsman production from China to the US as they work at increasing domestic output as tariffs raise the cost of imports. Some Craftsman tools are already assembled at eight Stanley plants in the US, including power tools in North Carolina, tape measures in Connecticut and utility knives in South Carolina. Stanley remains reliant on foreign-made components for some of the tools, including motors for power tools.

SB&D chose Fort Worth over a site in Ohio because Fort Worth offered a 40% tax abatement for the $50 million project. The tax abatement will last five years and could equal $80 million.

SB&D is also opening a regional distribution center in Northlake, Texas which is expected to employ 300 people.

SB&Ds lawsuit against Sears over the use of the Craftsman brand has been settled. Terms were not disclosed. The parties reportedly reached a mutually acceptable resolution to the issues raised in the litigation.

Trimble

Q1 revenue was up 8% to $801.6 million. Buildings and infrastructure revenue rose 30% to $294.7 million. CEO Steven Berglund said that the first quarter met their expectations and that their ongoing transition to higher subscription content remains on course.

Trimble introduced a next-generation integrated smartphone and GIS data collector for field inspection and GIS applications. The 6-inch display is readable in bright sunlight and offers all the functionality of a smartphone in a pocket-sized portable form that integrates with Trimble's data collection applications and software as well as third-party apps.

RETAIL

Retail Sales Fall 0.2%

Retail sales fell 0.2% in April after rising 1.6% in March. Core retail sales, which exclude food services, car dealers, building-materials stores and gasoline, also fell 0.2%, reflecting broad weakness in the retail sector. Rising prices at the pump pushed sales at gas stations up 1.8%. Rising gas prices generally mean consumers have less disposable income to spend on other things. However, economists say that rising wages and the lowest layoffs and unemployment rate in 50 years should keep the US growing steadily through the summer. Sales at building materials and garden supply stores fell 1.9%, but were up 3.3% year over year. The National Retail Federation commented that underlying fundamentals including job and wage growth continue to support spending.

Retailers Dealing with Tariffs

The Trump administration imposed a 25% tariff on $200 billion in Chinese goods in early May, up from the 10% duty put in place in October. The trade fight has thus far not impacted US shoppers, as major consumer categories, including apparel and toys, have not yet been hit with tariffs. Currency fluctuations have made imports cheaper and US retailers have worked to take costs out of their supply chains in order to avoid raising prices and dampening consumer spending. The Home Depot estimates that it will cost the chain about $1 billion more to buy goods with the 25% tariffs in place, on top of the roughly $1 billion in costs added by the 10% tariffs. THD plans to manage the cost increases by buying more volume at lower prices from some vendors and spreading price increases across more types of items in order to limit the impact on sales. They are also looking at doing more sourcing and production outside of China. Walmart said they will likely raise prices on some items, but are managing increases on a product-by-product basis. In general, large retailers and manufacturers are better positioned to extract price cuts from suppliers or spread increases strategically across lines. Retailers will not have to absorb cost increases until early June when many products subject to the 25% tariff come off container ships in US ports.

Amazon Most Valuable Brand

Amazon is the most valuable brand in the world, according to WPP/Kantar's new BrandZ report on the top 75 most valuable global retail brands. Amazon's reported brand value is $315.5 billion. China's Alibaba took second place at $131.2 billion, with McDonald's ranked number three. The Home Depot took the fourth spot with a brand value of $53.5 billion. The ranking combines market data from Bloomberg with extensive consumer insights from more than 3.7 million consumers around the world, covering more than 166,000 brands in more than 50 markets.

The Home Depot

Q1 sales rose 5.7% to $26.4 billion. Comp sales were up 2.5% from Q1 last year and US comps were up 3%. Canada's comps were slightly negative. Nevertheless, sales were below THD's expectations due to declining lumber prices and the second wettest February on record for the US.

Q1 Conference Call with Analysts:

Comps were above average in tools, building materials, plumbing and hardware, appliances, garden and décor.

Lumber has negatively affected comps, because lumber prices have fallen sharply; for example, a 4x8 sheet of OSB has fallen more than 50%. Without lumber, average ticket growth would have been closer to 3%. During the first quarter big ticket comp transactions over $1,000, approximately 20% of US sales, were up 3.9%, reflecting in part the impact of last year's hurricane-related sales. Excluding hurricane-related markets, big ticket comps were up approximately 5.1%. Big ticket comps were flat in February, reflecting unusually wet weather.

Lumber prices are dictated by housing starts and home construction; their unit sales have been excellent, but the price decline has really impacted the category. Lumber is already one of their lowest margin categories.

Comp sales were also affected by February sales, which produced negative comps of 2%, due to extremely wet weather, with 17 out of 19 US regions reporting negative comps for the month.

Online sales rose 23%, online traffic growth was healthy, and they are using their digital platforms to branch into adjacent categories like home, pool and work wear.

For consumers, they are investing in new category experiences that make it easier for customers to shop their full project list online, such as making it easy to find matching and complimentary products with a minimum of effort.

Customers also continue to value the store environment. They are investing in stores to improve their front-end checkout experience and are continuing to roll out automated lockers, streamline customer service desks and simplify tools for associates.

Their efforts have led to shorter waiting time and growing customer satisfaction, with scores for both checkout time and customer service up more than 500 basis points from last year.

They are also investing in Pro customers. Pro business once again outpaced DIY business. They believe they will be creating a value proposition for Pros over the next several years that will be unique to the marketplace.

Their new B2B website added 35,000 Pro customers during the quarter and now has 135,000 customers, with plans in place to have 1 million by the end of the year.

They know that 90% of Pros rent tools; several years ago only 1 out of 10 Pros rented from them. Today that is up to 1 in four, but there is plenty of opportunity for growth.

They are implementing a wide variety of features to make it easier and more efficient for Pros to do business with them, including a way for Pos to add authorized users or purchasers to the account so that all purchases are tracked. They can also link their purchases to QuickBooks and easily upload purchase history. During the second quarter they will be adding the ability for Pros to use their Pro credit card online and have their purchases added to their account history.

They are also opening a new flatbed delivery center in Dallas later this year that will be focused on Pros, and have implemented two and four-hour delivery windows that give Pros reliable delivery schedules.

They hired 80,000 new associates for spring and thanks to their new in-aisle mobility training solution, PocketGuide, they have product knowledge at their fingertips and can get up to speed quickly.

They opened a net of two new stores during the quarter for an ending store count of 2,289 and 238 million square feet of selling space. Sales per square foot for the first quarter were $435, up 5.6% from last year.

Two factors have changed since they put their 2019 plan in place. One is the increase in tariffs; they are still working through how it will impact them, and did not include any impact in their guidance. The other factor has been the significant deflation in lumber prices. Nevertheless, they reaffirmed their 2019 guidance.

For 2019, they expect comp sales to rise 5%, with overall sales increasing 3.3%. While they do not provide quarterly guidance, they had planned on comps of 4.5% for the first quarter. However, sales lost in February are coming back as weather improves. Their Pros report they have backlogs in excess of 90 days.

Lowe's

Q1 revenues rose 2.2% to $17.74 billion, above expectations for $17.66 billion in sales. **Comp sales rose 3.5%** for the quarter. Comp sales in the US rose 4.2%.

Q1 Conference Call:

Despite solid top line performance, gross margins contracted, due to a convergence of cost pressures, significant transitions in their merchandising organization and what CEO Marvin Ellison termed ineffective legacy pricing tools and processes.

Lowe's lowered their guidance for the fiscal year, and now expects total sales to increase approximately 2% and comp sales to rise 3%.

Unfavorable weather in February exerted 315 basis points of top line pressure and resulted in negative comps of 1.4% for February; in contrast comps were up 7.2% in April.

Transactions rose 2.2% and total average ticket rose 2.9% to $77.19, partially offset by a slight decline in total transactions. They delivered positive comps in 10 of 13 merchandising departments and all geographic regions except Tampa and Houston, which faced tough prior year comparisons due to Hurricanes Irma and Harvey.

Lowes.com posted comp growth of 16% for the quarter, and they are pleased with the progress their new leaders are making to improve their online business.

Comps were negative in Canada, due to the weaker Canadian housing market.

Their Pro comps significantly outperformed their DIY comps and they are seeing evidence that their strategic initiatives with Pros are gaining traction.

Cost increases agreed to by merchants in 2018 are now flowing through the P&L as they turn over inventory.

Over the past six months they have made a lot of changes in merchandising personnel, replacing two out of three merchandising senior vice presidents and 11 of 13 merchandising vice presidents. They believe this will positively impact the future, but it created more disruption than anticipated during the first quarter.

New CIO Seemantini Godbole will be implementing changes to their pricing and point of sale systems that will streamline who can affect costs and pricing changes and prioritize those that have the greatest impact on gross margins. They will also make it easier for their merchants to understand the impact of pricing actions without having to view multiple systems and numerous reports. That will help merchants do a better job of offsetting cost pressures and adjusting prices.

They are in a very competitive environment and the new processes they have in place will help them strategically increase prices. It's an SKU by SKU review process. And they have one team in place to manage cost and price.

They believe that customers are responding favorably to the strategic changes they are making, based on their comp sales results and growth in transactions and average ticket.

They transitioned into spring more smoothly than last year, and began setting stores from South to North three weeks earlier. They have also improved sales productivity by better using endcaps and leveraging Spring Black Friday.

They saw strength in tools and appliances during the quarter. They have posted above average comps in tools as the Craftsman reset continues to drive strength in categories like tool storage and mechanics tools and they are looking forward to completing the reset by the end of the second quarter.

Their promotional cadence during the quarter was about the same; they are striving to reduce promotional activity, not increase it.

They are encouraged by the early results they're seeing from their new merchandising service teams supported by their vendors. The teams are responsible for the day-to-day bay maintenance and resets in the stores along with setting and maintaining endcaps and helping execute off-shelf displays.

They will be introducing new and innovative products from Bosch and Metabo HPT, and leveraging existing partnerships with brands such as DeWalt.

They rolled out the smart customer service model that guides the way they hire, train, evaluate and coach associates. In the first quarter they trained more than 280,000 associates on smart customer service.

They also rolled out 88,000 smart mobile devices throughout their stores, so associates don't have to leave the sales floor to log in. The smart devices can process Buy Online Pick Up in Store orders, which reduces them from a 12-step paper-based process to an average of two digital scans. In Q1 60% of online purchases were picked up in stores.

They replaced a series of non-facing customer positions with more than 6,000 assistant store managers and department supervisors.

They decided to sell the assets of their Mexico operations rather than sell the operating business, which resulted in an $82 million tax benefit.

CEO Marvin Ellison said that while there have been many challenges, they still feel good about the outlook they gave last December. There is a lot of work to do, and his team knows that one of his favorite comments is "All the easy jobs are filled."

Other News:

Marvin Ellison is approaching the end of his first year as CEO of Lowe's. He did an extensive interview with the *Charlotte Business Journal* that looked back on his first year at the helm. His strategy and investments have focused on making operations efficient and making customer experiences seamless. He said that having a strategy that focuses on their brick and mortar locations allows them to allocate capital effectively for their core business needs. Since Ellison became CEO Lowe's stock has gone up 16.5%, compared to a 9.3% increase in the DJIA overall. Ellison is now focusing on Lowe's having great prices on the products customers need, making sure associates are courteous and knowledgeable, making their technology and supply chain world class and giving back to the community in significant and meaningful ways.

Lowe's acquired the Retail Analytics platform from Boomerang Commerce to accelerate their tech capabilities. The platform will be used to bolster strategic, data-driven pricing and merchandise assortment decisions.

Analysts noted that Lowe's results provided a stark lesson in the perils of using outdated technology, which Lowe's new CIO is now aggressively updating and replacing.

Walmart

Q1 revenue rose 1% to $123.93 billion, below expectations of $125.03 billion. **Comp store sales rose 3.4%,** the best first quarter increase in comp store sales in nine years. Sam's Club reported a disappointing 0.3% increase in comp sales. Ecommerce sales climbed 37%, due primarily to rising grocery sales. Walmart noted that currency is expected to remain a significant headwind, knocking about $1 billion off sales for the year.

WM began offering one-day delivery service in selected markets in May as part of their commitment to better compete with Amazon. The new service rolled out in Phoenix and Las Vegas for orders of $35 or more. Walmart says the service will roll out gradually over the coming months, with plans to reach approximately 75% of the US population this year, which includes 40 of the country's top 50 major metro areas. Walmart's one-day delivery will be free; Amazon's Prime costs $119 annually. CEO of Walmart ecommerce Marc Lore said it will actually cost them less to deliver orders the next day, because eligible items come from a single fulfillment center located closest to the customer. So the order ships in one box, or as few as possible, and travels a shorter distance via inexpensive ground shipping.

Walmart met with large consumer goods companies and advertising firms for the first time in New York at the end of May to pitch their advertising business and showcase their website and stores as a platform for other companies to reach customers. Hundreds of companies were expected to attend, along with the country's top marketing and advertising firms. Walmart will be encouraging them to shift spending to Walmart and away from rivals like Google, Facebook and Amazon. Walmart says their massive customer base and big data on what shoppers purchase give them a compelling edge. More than 300 million customers visit Walmart's stores every month and in January more than 300 million people shopped with Walmart online, more customers than shopped Amazon, Google and Facebook. Walmart's offerings will include sponsored search and display ads, and they plan to add videos later this year.

Suresh Kumar is Walmart's new chief technology officer (CTO). He joins Walmart with extensive executive experience at Google, Microsoft and Amazon. He fills the void left by the March departure of Jeremy King, Walmart's longtime CTO.

Ace Hardware

Q1 revenues rose 5.1% to $1.38 billion. Comp sales were up 3.9% and sales on the website were up 55%. The increase in comp sales was reported by the approximately 3,200 Ace retailers who share daily retail sales data and resulted from a 3.0% increase in average ticket and a 0.9% increase in comp store transactions. Increases were noted across most departments with grilling and power tools showing the largest gains.

Ace gave out one million American flags nationally on Saturday, May 25, to celebrate the true spirit of Memorial Day, according to CMO John Surane. Ace partners with the VFW on this program. Last year, Ace sent a total of 530,000 flags to 2,250 local VFW Posts across the country. Ace's name itself is a commemoration of the famous "Flying Aces," the courageous fighter pilots from the First World War. Flags were limited to one per customer and were available in participating Ace stores while quantities lasted. No purchase was necessary.

Amazon

Amazon's promise to give Prime members one-day delivery is sparking a backlash from labor unions. The Retail, Wholesale and Department Store Union says that speeding up deliveries could be dangerous for employees of Amazon's fulfilment centers. Union President Stuart Appelbaum said that workers are already struggling to keep pace and handle 200 to 300 orders per hour during a single 12-hour shift. An Amazon spokesperson told CNN that workers don't struggle to keep up and they have a very safe work environment. It is unclear whether or not Amazon plans to add jobs at their fulfilment centers in order to deliver on their promise.

Amazon revealed their first plans for HQ2 in Arlington County, Virginia. The plan submitted for the first two buildings calls for a pair of 22-story buildings combining about 2.1 million square feet, along with nearly 2,000 parking spaces and a significant amount of public open space. Project architect ZGF Architects LLP is doing the design.

Ford is partnering with Amazon to allow Prime Members to have packages delivered to their vehicles when they are not home. The Key by Amazon In-Car Delivery Program will be available for owners of select Ford models produced from 2017 on as well as for owners of Lincoln 2018 and later vehicles.

Amazon lockers at Whole Foods are increasing visits to the store, but most of the people who stop by to pick up Amazon packages stay less than five minutes.

Amazon has launched another retail partnership, announcing that customers will soon be able to pick up packages at 200 Steinmart stores across 28 states. Amazon lockers are currently in place at a variety of locations, including Whole Foods, an Amazon subsidiary, and 7-Eleven, Chase Bank and Sprint stores. In addition, Kohl's accepts Amazon returns. Steinmart acknowledged that the idea to use their stores as pickup locations actually came from Amazon.

Amazon's portfolio of fulfilment centers has grown to more than 233 million square feet globally, up from 209 million square feet in 2017.

Amazon may acquire Sizmek, an operator of online ad campaign management and distribution platforms, according to Financial Deals Tracker.

Amazon is selling a $3,990 tiny retail kiosk that can be assembled in hours and serve as a store, bar or chicken coop, according to *Business Insider.* The 94-square-foot structure has three service windows and what is described as a "unique Scandinavian retail design." The only tools required for assembly are a hammer, saw, screwdriver, pliers, drill., ladder, level, box cutter and measuring tape, plus another person to help with assembly. Amazon also sells a $7,250 tiny-home kit that can reportedly be put together in just 8 hours.

CANADA SNAPSHOT

Interest Rate Projections

The Bank of Canada (BoC) announced that it would leave the key interest rate unchanged and gave no indication they saw any need to move rates either up or down any time soon. They did note they see some reasons to be encouraged about the domestic economy and also see some risks looming on the horizon, particularly at the global level. BoC Governor Stephen Poloz also told the Senate banking committee that high levels of personal debt mean the Canadian economy is more sensitive to interest rates now than ever. 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 Rate drops to 5.4%

The unemployment rate dropped to 5.4% in May after holding steady at 5.8% for past three consecutive months. It was the lowest rate of unemployment since 1976. Employment was up 2.4% from May 2018, an increase of 453,000 jobs, with significant gains in both full-time and part-time work. Employment rose in Ontario, British Columbia, Nova Scotia and New Brunswick, fell in Newfoundland and Labrador and in Prince Edward Island and was little changed in the remaining provinces.

Consumer Confidence Rises to 53.71

Consumer Confidence in Canada rose to 53.71 in May after dropping to 50.76 in April. Consumer Confidence in Canada averaged 53.43 from 2010 until 2019, reaching an all-time high of 57.05 in November of 2018 and a record low of 46.80 in February of 2016. The monthly Index of Consumer Confidence is constructed from responses to four attitudinal questions posed to a random sample of Canadian households.

Consumer Prices Rise 2.0%

The Consumer Price Index (CPI) rose 2.0% on a year-over-year basis in April, following a 1.9% increase in March, according to Statistics Canada. Gasoline prices fell 1.6% year over year after dropping 4.4% in March. Excluding gasoline, the CPI rose 2.3% year over year. Prices increased in seven out of eight major components, with housing rising 2.7%. Consumer prices rose in six provinces, with British Columbia seeing the greatest increase. On a seasonally adjusted monthly basis, the CPI rose 0.3% in April, following a 0.4% increase in March.

GDP Rises 0.4%

Q1 GDP rose 0.4% to 2.066 trillion Canadian dollars after rising 0.3% in the fourth quarter of 2018, according to Statistics Canada. Market analysts had expected GDP to grow 0.9%. Monthly GDP rose 0.5% in March after falling a downwardly revised 0.2% in February. 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.

Housing and Construction News

The annual pace of housing starts in April rose 22.6% from March to 235,460 units. The increase was well above analysts' expectations. Single-detached urban starts increased 6% to 44,565 after rising to 42,139 units in March and rural starts rose to a seasonally adjusted annual rate of 15,073 after rising to an estimated 14,494 units in March. Signs of stabilization in at least some major resale markets continue, and suggest the housing sector is shifting to a more neutral force in Canada's economy after being a sizable drag last year, according to a senior economist at Royal Bank of Canada. The six-month moving average of the monthly seasonally adjusted annual rate rose to 206,103 in April from 202,420 in March. The growth in starts was helped by the strength of starts of multiunit projects in Ontario, B.C. and Alberta.

Home sales rose 3.6% in April after rising 0.9% in March and were up 4.2% compared to April 2018, according to the Canadian Real Estate Association (CREA). The Bank of Montreal noted that Canadian housing activity appears to be broadly stabilizing and fundamentals look better than they did earlier in the year. Canadian home sales softened in the wake of new mortgage stress test rules introduced last year and a rise in mortgage rates. Rates have started to come back down as markets expect interest rates to hold steady. The number of newly listed homes rose 2.7% in April after rising 3.4% in March.

Building activity is expected to drop by as much as $8 billion this year, according to a new study from Mortgage Professionals Canada. The study reports there has been an 8% drop in residential construction investment in the first quarter of the year, with the low-rise housing sector being hardest hit. The housing economist who authored the report said there is no fundamental economic reason for house construction to be tumbling, as the economy is strong and Canada's population is growing at the fastest rate in a generation. Many economists point to Canada's recently enacted mortgage stress test as the culprit. The test requires home buyers to prove they could still afford their mortgages even if interest rates were significantly higher than the rate they negotiated with their lenders.

Retail Sales Rise 1.1%

Retail sales increased for the second consecutive month, rising 1.1% to $51.3 billion in March. Sales were higher in 7 of 11 subsectors, representing 39% of retail trade. Higher sales at gasoline stations and building material and garden equipment and supplies dealers were the main contributors to the increase. In volume terms, core retail sales were up 0.3%. For the first quarter, retail sales edged up 0.1% following a 0.5% decrease in the fourth quarter. In volume terms, retail sales edged down 0.1% in the first quarter. Sales were up in nine provinces. Retail ecommerce sales were $1.6 billion in March, 3.1% of total retail trade. Ecommerce sales were up 20.0% year over year, while total unadjusted retail sales were up 1.9%.

Retail Notes

Canadian Tire saw revenues rise 2.8% in the first quarter to C$2.89 billion, while comp store sales rose 6.1%.

Canadian Tire is at the forefront of computerized warehouses. They built their first computerized warehouse in 1974; at the time it was North America's second largest distribution facility, and the first to use computer to computer communications and automatic storage and retrieval vehicles.

Amazon Canada announced record sales for Canadian small and medium-sized businesses. Sales in Amazon Canada's online stores exceeded $900 million in 2018 and also accounted for more than $2 billion in sales to Amazon customers outside of Canada.

MARKET TRENDS

Robots in the Loading Dock

The biggest challenge to automating loading and unloading trucks is that packages are not uniform. There are unpredictable variations in size, color, weight and material, which makes programming robots to load trucks a much more complicated and challenging proposition than using robotics to unload. To that end, Siemens AG and Honeywell introduced machines that pull packages from the back of a tractor-trailer and put them on conveyor belts at a recent automation conference in Chicago. Reportedly robotics company Dorabot, backed by Chinese ecommerce titan Jack Ma, is testing an automated unloading bot with two customers. The test robots use AI and can load 400 parcels an hour into a trailer and fill 60% of capacity, about in line with what a person can do. Dorabot wants to improve speed by about 50 parcels an hour and fill 80% of a truck's capacity before going to market. Dorabot hopes to be out of test and widely available within a year and a half.

Warehouse Automation

Amazon says a fully automated warehouse is at least a decade down the road, noting that humans think better than machines and that current technology just does not support full automation. Amazon says that the technology for a robot to pick a single product from a bin without damaging other products or to pick multiple products at the same time in a way that would be beneficial is years away. Amazon is currently under fire from labor groups and critics for increasingly automating jobs and reducing their dependency on human labor. Amazon currently runs 110 warehouses in the US, 45 sorting centers and about 50 delivery stations. They employ 125,000 full-time warehouse workers in the country. The warehouses that use robots typically handle general merchandise, but no fresh food. Amazon also said they are not changing the level of productivity at their warehouses to fulfill their recent promise of one-day shipping for Prime members. They intend to make changes to the transportation and delivery process instead. Amazon's current target is four hours from the time a product is ordered to the time it leaves the warehouse, and they are sticking with that timetable. Amazon said that applications for seasonal jobs had doubled to 850,000 by the end of October 2018. Amazon raised the minimum wage for US employees to $15 per hour in November 2018.

The Warehouse Fulfillment Game

Amazon is turning warehouse work into a competitive game, running experiments in several warehouses involving thousands of pickers and packers whose labors are incorporated into video games in a process called "gamification," according to the *Washington Post,* which is owned by Amazon CEO Jeff Bezos. The employees are racing to fill customer orders, their progress reflected in a video game format, according to Bezos. Some are racing around a virtual track or collaborating to build a castle. Individuals, teams or entire floors can be pitted against each other. The experiment started in one warehouse in 2017 and is now underway at five. The games are a response to worker complaints that Amazon's push for more automation has made workers feel like cogs in a big machine, as they increasingly work alongside robots. Target has also used games to encourage cashiers to scan products more quickly, and Delta uses them to train reservation agents.

Devices that Recognize Emotions

Amazon is reportedly developing a voice-activated wearable device that can read human emotions and tell whether someone is angry or sad or happy based solely on the tone of their voice. The wrist-worn gadget, code-named Dylan, will feature microphones paired with software. It could even be used to offer counselling to users on how to interact with other people. The device is being billed as a "health and wellness" gadget. Amazon is collaborating with Lab126, the hardware development group that developed Amazon's phone and the Alexa voice team.

CEO Security Measures

CEOs of large companies are taking some extraordinary measures to keep themselves safe from real and perceived threats. Amazon reportedly has a budget of $1.6 million dedicated to protecting CEO Jeff Bezos. Their latest expenditure was $180,000 on bulletproof and blast-proof windows for Bezos' office in Seattle. Facebook spent $22 million last year protecting CEO Mark Zuckerberg. Many of the Fortune 100 companies invest heavily in CEO security, and also secure CEOs homes, cars and vacation homes.

Insourcing Transportation

Major retailers including Amazon and Walmart plan to begin insourcing more of their transportation needs. Walmart is running a pilot program using its own 53-foot containers; an inside source told the *Journal of Commerce* they currently have a few thousand containers. Walmart said that they will not completely eliminate the middleman, but acknowledged that they have talked to railroads as direct providers. Railroads traditionally don't talk directly with shippers, instead they negotiate contracts with ocean carriers, freight forwarders and intermodal marketing companies.

Amazon has also become a non-vessel-operating common

carrier and launched a beta freight brokerage platform last summer. Amazon is offering beta service access to 53-foot full truckload dry van freight in New York, New Jersey, Pennsylvania, Connecticut and Maryland, and currently charging $709 to transport freight from Albany, New York to Washington, DC, a discount of about 33% over typical rates.

In addition, Amazon recently broke ground on its new million-square-foot, $1.5 billion airport in northern Kentucky. The air cargo hub is slated to open in 2021 and is designed to help Amazon “get you your packages faster.” The airport is expected to create 2000 jobs in Kentucky and allow Amazon to fulfill plans to provide one-day delivery service to Amazon Prime members.

Retailing in the Age of Experiences

Retailers are seeking ways to reinvent the in-store experience as online shopping has disrupted the retail landscape and created new expectations for consumers. The Home Depot, Lowe’s, Walmart and Target have hosted kid-friendly events to attract families to their stores. Macy’s launched their Story experience shops in 36 stress nationwide. The concept of a store within a store offers customers a way to purchase $20 to $30 gift items selected around a theme that changes every couple of months. The entire store is completely remodeled when a new theme is introduced. The inaugural theme was “Color,” which grouped products by primary colors.

The concept of experiential retailing has been around for decades; back in 1970 developer Gerald Hines famously added an ice rink to the Galleria mall to drive traffic. Apple’s stores have grown to become the most profitable experience stores nationwide, averaging more than $5,000 revenue per square foot. Apple is now adding Town Squares with meeting spaces where kids can learn how to code and teachers can take classes on how to incorporate technology into the classroom. The Museum of Ice Cream in San Francisco and the Flower Vault in Houston feature Instagram-friendly exhibits that have become the backdrop for countless selfies.