BOSCH

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US ECONOMY

Exchange Rates May 29, 2020

Euro	1 Euro = $1.111	$1.00 = 0.900 Euros
Canadian Dollar	1 CAD = $0.725	$1.00 = 1.381 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 107.780 Yen
Chinese Yuan	1 Yuan = $0.140	$1.00 = 7.138 Yuan
Mexican Peso	1 Peso = $0.045	$1.00 = 23.173 Pesos

Market Watch May 29, 2020

DOW	25,383	4.3%
NASDAQ	9,490	6.8%
S&P 500	2,912	4.5%

The markets have had a massive run up over the past two months, with the S&P, the index most followed by economists, now up 38% from its March low and only 10% below the record high set in February. Stocks did well throughout the month as more states began reopening their economies. Markets tumbled the end of the month but reversed losses after President Trump announced a series of measures aimed at punishing China for its treatment of Hong Kong but did not undermine the phase one trade deal reached earlier this year. On average, it takes markets about 24 months to fully recover from a major downturn, but markets now are reacting as if the economic bottom has already been reached. Analysts say there could be a setback if the country has to deal with another wave of CV19 outbreaks.

Consumer Spending Drops 13.6%

Consumer spending plunged by a record-shattering 13.6% in April after falling 6.9% in March, a slight improvement over the 7.5% drop first reported. Spending fell across the board, tumbling 17.3% for durable goods, 16.2% for non-durables and 12.2% for services. Personal income jumped 10.5% thanks to an annualized $3 trillion in stimulus support and government aid programs. Spending in brick and mortar stores, which accounts for the vast majority of consumer spending, is down 35% from May 2019. Consumer spending accounts for 70% of US economic activity.

Consumer Confidence Rises to 86.6

- The New York-based Conference Board's Consumer Confidence Index rose slightly less than a point to 86.6 in May from a downwardly revised level of 85.7 in April.*
- The Present Situation Index, which is based on consumers' assessment of current business conditions, dropped to 71.1 in May after plunging to a downwardly revised 73 in April.
- Expectations rose to 96.9 after rising to 93.8 in April.
- Other forward-looking measures improved modestly 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 0.8%

The Consumer Price Index (CPI) fell 0.8% in April after falling 0.4% in March. Core inflation fell 0.4% in April, the largest monthly decline for core inflation on record, and was up just 1.4% year over year. The CPI was pushed lower by further sharp drops in oil prices, largely due to demand for oil and gas falling around the globe because of stay home orders that limit driving and the very steep decline in air travel. The CPI rose just 0.3% year over year in April, the smallest YOY increase since 2015. Analysts say that consumer prices may decline in the months ahead as the CV19 outbreak depresses demand for some goods and services, outweighing price increases related to shortages caused by disruptions to the supply chain. With

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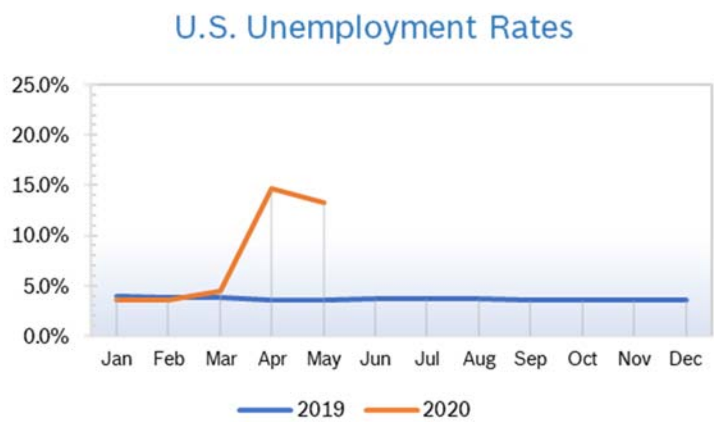
consumer prices falling, some analysts caution the economy could actually experience deflation, which could prolong the recovery. Deflation is a broad and prolonged decline in prices and wages and often in the value of homes or other assets.

Unemployment Falls to 13.3%



- The unemployment rate fell to 13.3% in May after rising to 14.7% in April and the economy added back 2.5 million jobs, defying forecasts of 7.5 million losses and a rise in unemployment to near 20%.*
- Private payrolls had a net gain of 3.1 million jobs, but state and local governments suffered big job cuts for the second consecutive month.
- The economy shed 20.7 million jobs in April, and more losses were expected in May.
- Unemployment rates declined among white and Hispanic Americans but the level rose to 16.8% for African Americans.
- Hiring was broad-based, with restaurants and retail rebounding. Construction payrolls rose by 464,000 in May.

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

Job Openings Drop

The number of job openings dropped by 813,000 in March to 6.2 million after dropping to 6.9 million in February, according to the most recent Job Openings and Labor Turnover Survey (JOLTS) from the US Bureau of Labor Statistics (BLS). The survey was for the full month of March, and clearly reflects the impact of CV19 on the economy. Layoffs and discharges increased 9.5 million in March to 11.4 million, the highest number since the government started tracking the series in 2000. The layoffs and discharges rate surged to a record 7.5% in March from 1.2% in February. The number of people voluntarily quitting their jobs dropped by 654,000 to 2.78 million, the lowest since September 2015. The quits rates, which is viewed by policymakers and economists as a measure of job market confidence, dropped to 1.8%. That was the lowest rate since December 2014 and was down from 2.3% in February. The BLS is adjusting how it collects data in order to fairly reflect the impact of the pandemic.

Chicago PMI Falls to 32.3

The Chicago Purchasing Managers Index (Chicago PMI) fell to 32.3 in May after dropping to 35.4 in April. It was the eleventh consecutive sub-50 reading for the index and the lowest reading since March 1982. Among the five indicators, Order Backlogs and Supplier Deliveries saw the biggest declines; Employment actually edged marginally higher. New Orders dropped by 2.3 points to the lowest level since July 1980. Production dropped 6.3% after falling sharply in April and remained at a 40-year low. Order Backlogs plunged to 28%. Prices Paid rose as companies noted higher prices for essential goods and transportation. The special question asked in May was how long panelists expected CV19 to impact their business plans. On the far ends of the spectrum, 18.8% expect an impact on business plans for more than a year; 10.4% see the impact lasting for less than three months. Nearly half expect CV19 to impact business plans between 9 and 12 months. 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 Drop 1.3%

The Producer Price Index (PPI) fell 1.3% in April after falling 0.2% in March and 0.6% in February. In the 12 months through April the PPI was down 1.2% after being up 0.7% in March. Much of the decline was due to the third consecutive monthly decline in gasoline and energy prices, which plunged more than 19%. More than 80% of the decrease can be traced to a 3.3% drop in prices for final demand goods. Core producer prices, which exclude food, energy, and trade services fell 0.9% in April, the largest decline since the index was introduced in September 2013. Core prices were down 0.3% year over the year, the first time core prices have been down year over year.

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Q1 GDP Falls 5.0%

Q1 GDP fell an upwardly revised 5.0% in the first quarter, according to the second 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. Analysts expect GDP to take a much bigger hit during the second quarter. A larger estimate of the drop in private inventory investment was the main reason for the downward revision, which was partially offset by small upward revisions to consumer spending and business investment. The drop in real personal consumption expenditures (PCE) was revised to 6.8% from the 7.6% first recorded. Pre-tax profits dropped 8.5% from Q1 2019. Wells Fargo looks for real GDP to contract at a record-breaking pace in excess of 20% during the second quarter; other analysts predict an even steeper decline.

Fed Statement on Recovery

Fed Chairman Jerome Powell expects GDP to contract by as much as 20% to 30% in the second quarter, with unemployment peaking around 25%. However, he believes that rapid government and central bank aid helped the country avoid a depression, and went on to say that the Fed will issue relief as long as necessary to bridge the virus threat. He also believes growth will resume as soon as the third quarter, but there will not be a full recovery this year. Uncertainty surrounding the course of the pandemic over the rest of the year could push a full recovery until the end of 2021. He says a "Great Depression" is very unlikely. The current downturn was driven by an external event, and the economy and the financial system were both strong before CV19 hit. He stated that eventually we will not only get back to February's solid economy, but will get to an even better one.

HOUSING & CONSTRUCTION

Builder Confidence Rises to 37

Builder confidence rose seven points to 37 in May after dropping 42 points to 30 in April, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). Lower interest rates and builders adapting to the new realities of finding digital ways to connect with potential buyers, including using social media and providing virtual tools such as home tours and online meetings and closings, contributed to the increased optimism. All the HMI indices posted gains in May. The HMI index gauging current sales conditions increased six points to 42, the component measuring sales expectations in the next six months jumped 10 points to 46 and the measure charting traffic of prospective buyers rose eight points to 21. Regional scores rose in every region but the Northeast, where many states remained fully shut down for the month.

Building Permits Fall 20.8%

Building permits fell 20.8% in April to a seasonally adjusted annual rate of 1.07 million units after falling to 1.35 million units in March. **Single-family permits fell 24.3%** to 669,000 units in April after falling to 884,000 units in March. Multifamily permits fell 14.2% to 405,000 units after rising to 469,000 units in March. Year-to-date regional permits were mixed.

Housing Starts Fall 30.2%

Housing starts fell 30.2% in April to a seasonally adjusted annual rate of 891,000 units after falling to 1.22 million units in March. **Single-family starts fell 25.4%** to 650,000 annual units after falling to 856,000 annual units in March. Multifamily starts fell 40.5% to 241,000 units after falling to 360,000 units in March. Regional starts were mixed. The declines, although large, were actually less than expected. 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 0.6%

New-home sales rose 0.6% in April to a seasonally adjusted annual pace of 623,000 from a downwardly revised March reading. Sales were well above expectations, but 6.2% below April

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2019. The biggest declines in sales were in the hard-hit Northeast and West. Inventory fell to a 6.3 months' supply, with 325,000 new single-family homes for sale, 3.0% lower than April 2019. The number of homes completed and ready to occupy rose by 2,000 to 78,000. The median sales price fell to $303,900 from $321,400 in March, due builders using incentives in April. The median sales price was also down from $339,000 in April 2019. Regional new home sales were mixed. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

Existing Home Sales Fall 17.8%

Existing home sales fell 17.8% in April to a seasonally adjusted annual rate of 4.33 million after dropping to 5.27 million in March. It was the lowest monthly rate of sales since July 2010. Existing home sales were down 17.2% from April 2019. The median home price was $286,800, up 7.4% from April 2019, marking 98 consecutive months of year-over-year gains. Total housing inventory at the end of April totaled 1.47 million units, down 1.3% from March and down 19.7% from one year ago. Unsold inventory sits at a 4.1-month supply at the current sales pace, up from 3.4-months in March and down from 4.2 months in April 2019. Regional existing homes sales year over year fell in all regions. The pandemic hit the housing market at what is usually the height of the spring buying season, and the National Association of Realtors (NAR) says a full rebound is unlikely due to widespread uncertainty. They expect a slow and gradual recovery, aided by continuing low mortgage rates.

Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence	17 (-2)	42 (+8)	32 (+7)	44 (+12)
Building Permits YTD	-8.0%	+7.1%	-3.1%	+4.1%
Housing Starts Y/Y	-1.3%	+9.0%	+6.8%	+7.7%
New Home Sales	+8.7%	+2.4%	+2.4%	-6.3%
Existing Home Sales	-16.9%	-17.9%	-12.0%	-25.0%

Mortgage Rates Fall to 3.15%

- A 30-year fixed-rate mortgage (FRM) fell to a new all-time low of 3.15% at the end of May after falling to 3.23% at the end of April. Mortgage rates were at 4.0% at the end of May 2019.
- Freddie Mac notes that these unprecedented rates have impacted purchase demand, which rebounded from a 35% year-over-year decline in mid-April to an 8% increase.
- The size and depth of the secondary market is keeping rates low and driving higher refinancing activity as well as modestly improving mortgage demand.
- The average loan size for refinancing buyers dropped by $70,000 in May, indicating that a broader base of buyers is taking advantage of historic low rates, which Freddie Mac termed "remarkable" in the current economic climate.

POWER TOOL INDUSTRY

Stanley Black & Decker

Some analysts are questioning SB&D's decision to protect their margins by cutting another $1 billion in costs to mitigate the impact of CV19. Bank of America downgraded SB&D stock to Neutral and cut their price target, saying that all the focus on margin resilience could come at the expense of innovation and long-term competitive position and distract from the need to onshore more of their supply chain. Analysts pointed out that competitor TTI has grown R&D and headcount far more aggressively than SB&D over the past five years.

Goldman Sachs Industrials & Materials Conference:

Their margin resiliency program built up $100 million to $150 million for this year, but of course the pandemic headwinds have been much more significant. However, the program helped them create a roadmap for responding to new headwinds.

They are now looking for an additional $850 to $900 million in costs reductions on an annualized basis. They are planning for a variety of recovery scenarios so they will be able to quickly pivot and execute based on actual developments.

Some of the reductions come from productivity pricing and Industry 4.0 changes that will be sustainable, permanent changes. Some things like commodity deflation will be temporary.

They are cutting between 10% to 30% of spending on professional services and marketing; some of that is temporary and some of it will be sustainable.

Some of the costs will creep back, including some of the temporary changes they've made in benefits.

They have very good insights from their major customers regarding what is happening with inventory and POS. Lowe's is going to reduce their inventory a bit in this quarter after ramping up for the Craftsman rollout, but SB&D believes that as they move through the quarter, they will begin to see replenishments develop.

They believe they are definitely gaining share in US retail. Ecommerce continues to be strong, and they are fortunate in that many of their products are viewed as essential.

CFO Don Allan stated that they believe the remodeling and residential markets will emerge from the pandemic in good shape. People want to continue to do remodeling and project work and the fact that more people are working out of their homes is actually creating more projects. They also believe there may be a gravitation away from densely populated cities to the suburbs and the countryside.

Commercial construction may be sluggish for the next two or three years as workplaces shift and more people work remotely. Many companies are now recognizing that their real estate footprint does not need to be as big.

Construction in the US has varied greatly by state; Florida has continued much of their construction activity, whereas in the Northeast activity has almost ground to a halt. That will come back as states begin to reopen.

The tariffs caused them to accelerate their plans to move more manufacturing closer to customers rather than have so much product shipping out from China and overseas into US markets. They've made a lot of progress, but their employees are not traveling now, so now work is being done. They will resume work when they begin traveling again. They are trying to drastically reduce their Chinese footprint.

JP Morgan Homebuilding Conference:

Stanley Black & Decker updated their guidance during a presentation May 19 at a JPMorgan homebuilder conference.

SB&D says its revised plan currently assumes a Q2 organic revenue decline of 20% to 30% vs. a prior planning assumption of a 35% to 45% organic revenue decline. North American retail continues to be very strong and the security business is performing well.

SB&D noted that the improved range primarily comes from better visibility of stronger performance in the U.S. retail channel for Tools & Storage and Global Security, although the environment remains dynamic.

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They are seeing Tools & Storage coming back, with replenishment orders from major US retail customers, and are seeing more positives than negatives. They believe they are gaining share despite the negative environment.

They have been working with their retailers on Father's Day promotions, which they described as normal promotions, not at a higher than normal level. Retailers have not really scaled back those plans.

Black & Decker brand products and DeWalt products have similar margins, but the absolute dollars spent on each brand are significantly different.

The first time they can exercise their option for the remainder of MTD is next July, so since the company is still 80% privately held, they did not want to provide too many details. However, they said 80% to 90% of MTD business funnels through US retail and POS is strong, not only in tools but also in outdoors.

Wolfe Research Global Transportation Conference:

POS has really begun to accelerate on a weekly basis, and is at levels that they haven't seen in 20 years. Much of it is being driven by the US Tools business. Their ecommerce business is up substantially from the $1.3 billion in volume in ecommerce tool industry sales they did last year.

The Pro has not been as important a factor in home center sales as usual, and DIY has really strengthened, with people focusing on their homes.

They have four to six growth opportunities that they are very excited about, including MTD and ecommerce. FlexVolt will have some innovations in the '21 to '22 time frame.

TTI/Techtronic Industries

Techtronic's cost-cutting programs and new product launches could help the company widen profit margins and raise earnings per share (EPS) through 2022, according to Citibank analysts. Citi noted that TTI has a proven record of grabbing market share by introducing new products.

RETAIL

Retail Sales Plunge 16.4%

Retail sales plummeted 16.4% in April after falling 8.7% in March and were down 21.6% from April 2019. Core retail sales, which exclude automobiles, gasoline and sales at building and supply stores and factor into calculations for GDP, fell 16.2% after posting modest gains in March. Sales at building and supply stores fell 3.4% after being up 1.3% in March. Even grocery stores saw a decline, with sales down 13.2% after rising 26.9% in March. Online sales were the only category to grow, with April sales up 8.4% from March and 21.6% from April 2019. Furniture and home furnishings stores and electronics and appliance stores saw sales drop nearly 60%.

The Home Depot

Q1 sales rose 7.1% to $28.26 billion, beating estimates of $27.54 billion. **Comp sales rose 6.4%.** THD missed estimates on quarterly profits because they spent about $850 million on benefits for employees who were keeping stores and warehouses running through the pandemic. THD provided additional bonuses, double pay for overtime and added more hours of paid time-off.

THD withdrew their guidance for the full fiscal year due to the uncertainty related to the duration of CV19 and its impact on the broader economy.

Q1 Conference Call with Analysts:

Comps rose 6.4% overall and 7.5% in the US for the quarter. All three US divisions posted positive comps, as did 17 of 19 regions. The two exceptions were the New York Metro and South Florida regions. New York and the surrounding areas suffered from an outsized impact from CV19 and South Florida was negatively impacted by stores in Puerto Rico being completely closed.

Three weeks of widespread shelter in place mandates and the limits they imposed on store occupancy depressed weekly performance and resulted in negative double-digit comps during those weeks. There were extreme ups and downs from week to week over geographies and categories.

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Their focus continues to be on the safety and well-being of associates and customers and providing customers and communities with essential products and services. Being aligned around those two objectives enabled critical speed and flexibility when making decisions and implementing a number of changes across the business in this rapidly evolving and fluid environment.

They believe The Home Depot is uniquely positioned to weather this pandemic crisis. The investments they have made over the years have allowed them to quickly adapt to shifts in customer needs, preferences and behaviors. Their interconnected retail strategy has supported record level web traffic for several weeks without disruption.

Sales leveraging digital platforms increased 80% in the quarter and more than 60% of the time customers chose to pick up orders at a store.

Their associates and supplier partners have been collaborating to deliver what was needed. Early on when the pandemic was affecting the supply chain in China they established regular and frequent contact with suppliers, both internationally and domestically.

Early in the pandemic they reached out to PPG, one of their key paint suppliers, and asked if they could help supply hand sanitizer for associates. They converted several manufacturing lines and within a few weeks produced an initial order of more than 100,000 gallons. They are planning to produce three times that amount for use by in-store associates over the rest of the year.

The digital business accelerated from approximately 30% growth in early March to triple-digit growth by the end of April. Daily traffic to the website reached new records towards the end of the quarter, consistently above Black Friday levels.

For Q1 they saw positive comps in 11 of 14 merchandising departments. Comps in kitchen and bath and flooring and millworks, which rely on in-home installation, were negative. People spent more on tools for DIY projects, including painting, gardening and small repairs. THD also saw a surge in demand for cleaning supplies.

They saw strong comps across most departments during the last three weeks of the quarter even though they were restricting customer traffic and maintaining safety protocols.

Big ticket comps were up 2.5% for the quarter, with strength in appliances and lawnmowers offset by categories requiring installation.

DIY sales grew faster than Pro sales for the quarter. They continue to have a high level of engagement with Pros, but certain states and municipalities restricted in-home activity which impacted Pros. Smaller Pros performed well throughout the quarter, while larger Pros were pressured. They suspended certain non-essential services such as kitchen remodels.

Pros faced a lot of restrictions in states with strict shelter-in-place regulations and restrictions on construction. Larger jobs have been postponed, but not canceled, which means most customers are planning to resume work once the crisis passes.

Average ticket was a very strong $74.70, up 11.1%, while the total number of transactions fell 3.9%. CEO Craig Menear speculated that was due to the fact that people tried very hard to limit their exposure and focused on getting everything they needed in one trip.

They are not planning on negative comps during Q2 nor are they planning on a negative year. Typically, recessions not driven by housing have shallow performance declines but this is a unique situation and it is impossible to predict the duration.

Sales through their website surged. They more than doubled the number of ecommerce customers and their app downloads nearly doubled as well. Their penetration of the ecommerce category jumped to just under 15% for the quarter.

Lowe's

Q1 sales grew 11.2% to $19.7 billion and comp sales grew 11.2% overall and 12.3% in the US. Ecommerce sales increased 80%. Canada posted negative comps, with performance impacted by store closures and regulatory-related restrictions.

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Lowe's withdrew their full-year guidance, saying the future is too uncertain and volatile to make projections.

Q1 Conference Call with Analysts:

Their focus shifted from running their business in ways designed to achieve their financial plan to functioning as an essential retailer in a pandemic. They committed to keeping associates and customers safe, supporting their communities, first responders and healthcare providers and financially supporting their associates.

The US home improvement comp was driven by strong demand from both DIY and Pro customers. Overall demand strengthened over the quarter. The uptick in DIY demand was partly driven by an early spring in many western and southern geographies and customers focusing on their homes.

CEO Marvin Ellison speculated that customers used their stay-home time to tackle long to-do lists they hadn't had time to focus on.

Comp sales for Pros were strong and as expected, they saw increased demand in CV19-related products such as cleaning supplies, as well as appliances, including refrigerators and freezers.

They estimate that the pandemic contributed approximately 850 basis points to comp sales growth.

They implemented additional safety protocols at point of sale checkout, outside garden and the paint desk. The store teams were so effective that their customer service scores improved 200 basis points year over year in the quarter.

Their investments in online infrastructure and progress with the Google Cloud migration greatly improved site stability and allowed them to handle the increased traffic. Online sales grew 80% overall, with even strong growth for Pro customers. Online penetration increased to 8% of total sales.

All geographic regions and all three US divisions had positive comps, with the West once again the top performing geography. Rural stores outperformed the company comp by more than 250 basis points, while urban stores experienced more disruption. About 10% of stores are classified as urban; they negatively affected results by 400 basis points.

They dramatically limited promotional messaging and highlighted commitment to communities and appreciation for associates. They were a presenting sponsor on ESPN for the NFL Draft, which posted record-setting viewership. They used that time to spotlight and thank associates and first responders.

Some steps they took limited sales, but demonstrated commitment, including closing stores three hours early, closing on Easter Sunday, reducing promotions and limiting customer access to key areas like paint and garden.

Lowe's has hired more than 100,000 associates for the spring season, and shared their best practices with the Retail Industry Leaders Association.

CV19 is the only competitive threat they are focused on right now.

Facilitating social distancing required them to implement several new programs, including additional signage and floor markers, social distancing ambassadors to manage customer traffic flow, leveraging new technology to monitor store traffic and removing product from the stores to free up additional space for customers, particularly in high-traffic areas.

They also implemented more stringent cleaning procedures, added more hours for third party cleaning services and closed early to allow for increased cleaning and restocking.

Lowe's was one of the first retailers to install Plexiglas shields at point of sale in all stores and distribute gloves and masks to associates.

Winning Together profit sharing bonuses were earned by 100% of stores during the quarter, totaling $87 billion.

Core Pro categories performed well, with double-digit comps in rough plumbing, hardware and tools. Installations fell by 50% as many customers refused to allow installation work in their homes.

They continue to see strong customer response from Craftsman and strength from their launch of the new Kobalt XTR 24-volt power tool platform, which is being embraced by both heavy DIY and Pro customers. They are seeing good results from the addition of their exclusive DeWalt 12-volt line of compact power tools.

They also continue to showcase innovative new tool products from Bosch, Lufkin, Spider and Metabo HPT, along with Cobalt. These brands along with their investment in job lot quantities and their improved Pro service model are driving new customer trial and increasing their share of wallet from existing Pro customers.

Strategic progress in 2019 allowed them to execute well during the quarter. Having merchants in place for the full year allowed for better planning and made it easier to respond to rapidly changing operating requirements.

Their field merchandising teams also responded to 10 tornadoes and two earthquakes impacting parts of the US during the quarter.

They will be leveraging their position as the number one destination for outdoor power equipment in the US with their leading brands.

Strong trends have continued into May with strength in both DIY and Pro across nearly all merchandising categories and geographies. They think Pro customers have migrated to primarily outside projects. They also believe the current environment is favoring small "pickup truck" Pros who are less impacted by macroeconomic factors.

They do not anticipate negative comps but do expect to see sales start to moderate over the rest of the year.

They do not believe sales have been pulled forward; they believe there has been a seismic shift in demand and customers are focusing on projects around their homes.

When customers began asking for curbside pickup, they were able to implement it on Lowes.com in just three days; they would never have been able to accommodate something like that in the past. Approximately 90% of online sales are fulfilled or picked up at a store, which helps defer the cost of operating the platform. In-store pick up accounts for about 60% of orders and stores shipping out the remainder.

The exterior installation business is picking up strongly; in-home installs will be slower to recover.

They want to be known as a value-oriented retailer, not a promotional one. They will probably not use traffic-driving media in this environment but when customers come in they want them to find value on the shelves. They have not seen any signs customers are trading down.

Other News:

CEO Marvin Ellison noted that they are seeing their stores in states that are beginning to reopen outperform overall company comps. Ellison believes that provides hope that they will be able to sustain their performance, even in a more crowded competitive landscape.

Lowe's spent $80 million for a special payment to hourly associates in May for unplanned expenses and hardships. Hourly employees received a one-time bonus of $300, while part-time employees received $150. Lowe's made a similar special payment in March. Lowe's has more than 300,000 employees at 2,200 stores; roughly 90% are hourly employees.

Lowe's is requiring all employees to wear a mask or approved face covering when working in stores or at customers' homes. Managers continue to monitor store occupancy and limit customer traffic. Store layouts have been changed to provide more space in aisles, and Plexiglas protective shields have been added at all points of sale.

Lowe's donated $1 million worth of flower baskets for Mother's Day to 500 long-term care and senior living facilities across 12 markets impacted by the pandemic, including Charlotte, New York, Seattle, Chicago, Boston, Houston and Miami. They sourced the baskets from local nurseries and growers nationwide whose business has been affected by the pandemic.

Analysts are quite bullish about Lowe's prospects after analyzing their Q1 results. Many noted that Lowe's ability to respond to the crisis was impressive, with Lowe's demonstrating flexibility and sound planning.

Walmart

Q1 revenue rose 8.6% to $134.62 billion, easily beating expectations. **Comp sales in the US rose 10%** and **ecommerce sales jumped 74%.** Foot traffic fell for the quarter but average transaction rose 16.5%.

Walmart absorbed about $900 million in additional costs related to CV19, including raising wages for warehouse workers and paying bonuses to store staff. They also hired 235,000 new workers.

Walmart withdrew their financial guidance for the year, saying that the situation was too uncertain to make projections. However, they stated that Walmart was well positioned to operate through the crisis and has benefited from other stores closing and other websites being slowed by high traffic.

Walmart expanded their two-hour Express Delivery service in early May, rolling it out to nearly 1,000 stores. Walmart ran a pilot program in 100 stores that began in mid-April and is expanding it because of customer demand. Walmart has added more personal shoppers to fill Express Delivery orders, which add an additional $10 to current delivery fees. Walmart's Delivery Unlimited customers, who pay $98 per year, pay a flat fee of an additional $10 per Express order.

Walmart will shut down Jet.com, the ecommerce site they acquired in 2016. Walmart.com is doing fine without Jet, with a 74% increase in revenue during the first quarter. Walmart spent $3 billion on Jet in 2016 but it never really took off. However, Walmart credited Jet with accelerating Walmart's own omni-channel strategy.

Menards

Menards is requiring customers to wear face masks, although it was not clear if the policy applied to all of Menard's 300 stores in 14 states. The CDC recommended that people wear face covering in public in April, but it is not required.

Ace Hardware

Sales for fiscal 2019 rose 6.2% to more than $6 billion for the first time in the co-op's history. More than 80% of sales came from wholesale purchases. Store count increased from 4,476 at the beginning of 2019 to 4,556 at the close, and the number of retailers with multiple outlets rose to 671 from 643. Warehouse sales of private label Ace brands were more than $659 million in 2019, about 14% of their domestic wholesale merchandise sales. At the end of 2019, Ace had about 50 million Ace Rewards members. They had more than 102 million visitors to their website in 2019, with ecommerce revenues up 59%.

Led by paint, merchandise sales were steady. Hand and power tools accounted for about 11% of sales.

Q1 revenue rose 3.8% to $1.43 billion and comp sales increased 4.2% at the 3,200 Ace retailers who share daily retail sales data. Average ticket rose 5.1%, but comp store transactions fell 0.9%.

Ace added 22 new domestic stores in the first quarter and cancelled 12 stores, leaving the total domestic store count at 4,566 at the end of the first quarter, up 60 stores from Q1 2019.

Ace gave out 1 million American flags on the Saturday of Memorial Day weekend to honor those who made the ultimate sacrifice for their country. They once again collaborated with the Veterans of Foreign Wars (VFW). Ace gave each customer who came in on Saturday a free flag and also donated one to a local VFW Post to be used for marking and honoring veteran graves on Memorial Day.

Amazon

Amazon removed quantity limits on products suppliers can send to their fulfillment centers in order to speed up delivery. The limits were initially put in place so they could focus on essential goods. The one-day and two-day shipping promised to Prime members proved to be very difficult to achieve.

Reports surfaced that Amazon may be contemplating acquiring J.C. Penney, which recently filed for a CV19-induced bankruptcy. Amazon is reportedly eager to expand their apparel business.

Amazon will reportedly move Prime Day from their anniversary in July to September, according to the *Wall Street Journal.* Amazon's ongoing CV19 blog states that their top concern is ensuring the health and safety of their employees. Prime Day puts an enormous strain on warehouse and delivery workers. In addition, consumers will need to have a better understanding of how the economy will bounce back and be confident they have jobs before they will want to splurge, no matter how good the deals might be.

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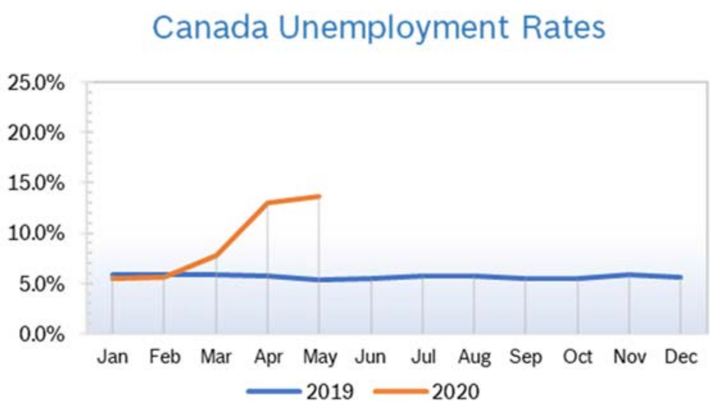
CANADA SNAPSHOT

Unemployment Rises to 13.7%



- Canada's unemployment rate rose to 13.7% in May after rising to 13.0% in April but the economy regained 290,000 jobs.
- The number of people who worked less than half their usual hours dropped by 292,000 (-8.6%). Combined with the jobs regained, these changes represent a recovery of 10.6% of the COVID-19-related employment losses and absences recorded in the previous two months.
- Employment gains varied widely by province, with Quebec accounting for nearly 80% of overall employment gains.
- Total hours worked rose in most industries, led by construction (+19.0%); other services (+13.2%); wholesale and retail trade (+11.0%); manufacturing (+10.9%).

Consumer Confidence Rises to 63.7

The Index of Consumer Confidence rose 16.2 points in May to 63.7 after plunging 41 points in April, according to the Conference Board of Canada. Consumers in all regions of Canada felt more confident in May than they did in April, but the index is still down more than 60 points from February. Thousands of Canadians have lost their jobs, and there are still worries about the oil crisis and large swings in prices. The monthly Index of Consumer Confidence is constructed from responses to four attitudinal questions posed to a random sample of Canadian households.

Consumer Prices Drop 0.2%

The Consumer Price Index (CPI) dropped 0.7% in April after falling 0.9% in March, according to Statistics Canada. Year-over-year inflation dropped to 0.2% in April after rising 0.9% year over year in March; the last time consumer prices fell year over year was September 2009. Excluding food and energy, consumer prices increased 1.5% in April after increasing 1.8% in March. Gas prices dropped 39.3% on a 12-month basis in April, but have since rallied. However, 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%.

Q1 GDP Falls 2.1%

Real GDP fell 2.1% in the first quarter and 8.2% on an annualized basis, due to reduced household spending and the widespread shutdown of businesses in March due to CV19. Household spending was down 2.3%, the steepest quarterly drop on record. Businesses drew down inventories and both exports and imports fell. Construction was down 4.4%, eclipsing the 3.3% contraction in January 2009. All subsectors declined, with residential construction (-3.8%), repair (-7.6%), and engineering and other construction (-3.2%) contributing the most. Technical and operational delays were encountered in the production of source data on building construction investment so first quarter results were estimated using proxy indicators of labour and material costs, as well as data from the Canada Mortgage and Housing Corporation. Spending on durables fell sharply but spending on non-durable goods rose 3.1% as people stocked up on food, beverages and cleaning supplies. Retail trade dropped 9.6%, the largest monthly decline since the series began in 1961, as 7 of the 12 subsectors were down. Motor vehicle and parts dealers contracted 38.6%, contributing the most to the decline. Excluding motor vehicle and parts dealers, retail trade would have shrunk by 3.2%. Sales also rose 7.2% at non-store retailers, where panic-buying and self-isolation preparations by consumers, along with a shift to online shopping to maintain physical distancing, greatly contributed to gains.

Interest Rates and Economic Outlook

Bank of Canada (BoC) says interest rates will probably stay low, and Canada is still on track to meet the best-case scenario for recovery released by the central bank in April. That forecast had growth shrinking 15% in the second quarter compared to

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the fourth quarter of 2019. Canada's overall inflation rate turned negative in April. If there is a second wave of CV19, it could trigger a worst-case scenario.

Housing and Construction News

The six-month trend for housing starts fell 12% in April to a seasonally adjusted annual rate of 199,589 units from 204,899 units in March, according to Canada Mortgage and Housing Corporation (CMHC). Statistics were complicated by the fact that Quebec halted most construction until April 20, and CHMC did not collect any data from Quebec in April. They resumed in May. Meanwhile, the level of activity across the rest of Canada was fairly solid, and excluding Quebec, housing starts rose, on average, across the rest of the country.

Canada's home sales plunged 57.6% in April to 20,630 sales as both home buyers and sellers stayed home, according to the Canadian Real Estate Association (CREA). The levels of activity were the lowest since 1984, and almost double analysts' projections. However, sales began to pick up in May as virtual viewing tools and the realization that there will be no quick end to the pandemic have helped people adapt to the new reality. The composite benchmark price was down 0.6% in April but was still up 6.4% from April 2019. The national average price for homes sold in April fell 1.3% from April 2019 to $488,000. Excluding the high-priced Toronto and Vancouver markets, average price was less than $392,000.

Mortgage rates are expected to remain near historic lows until the economy shows signs of recovery, according to Can-Wise Financial Mortgage Brokerage. The Bank of Canada's (BoC) 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%.

Canadian home building could drop by as much as 75% and prices could fall up to 25% in oil-producing provinces, according to the Canada Housing and Mortgage (CHMC). After big declines in 2020, they expect starts, sales and prices to begin to recover by mid-2021. They expect prices overall to fall between 9% and 18% and sales to drop by as much as 30% from prepandemic levels before slowly recovering after 2022. There is such a wide range because there is so much economic uncertainty, but starts are expected to hit their low point this fall, between a range of 51,435 and 101,492.

March Retail Sales Fall 10.0%

Retail sales fell 10.0% in March to $47.1 billion after rising to $52.2 billion in February. The decline was the largest on record, and similar to the drop in the US, according to Statistics Canada. Many Canadian retailers shut down operations mid-month and stores that remained open curtailed hours and limited customer traffic. Based on respondent feedback, about 40% of retailers closed their doors for an average of five business days during March. Sales were down in 6 of 11 subsectors, representing 39.2% of retail trade. Retail sales in volume terms declined a record 8.2%. Sales were down in all provinces.

Retail sales declined 15.6% in April, according to an advance estimate provided by Statistics Canada, which wanted to weigh in because of the current very fluid environment. Owing to its preliminary nature, this figure should be expected to be revised.

Retail Ecommerce Sales Soar

The CV19 pandemic caused many Canadian retailers to open or expand their ecommerce platforms in March in response to physical distancing measures and storefront closures. On an unadjusted basis (that is, not seasonally adjusted) retail ecommerce sales were $2.2 billion in March, accounting for 4.8% of total retail trade. This uptick in retail ecommerce was atypical for March and similar to the pattern normally observed at the start of the annual holiday shopping period. On a year-over-year basis, retail ecommerce increased 40.4%, while total unadjusted retail sales declined 9.6%.

Retail Notes

Lowe's reported that Canada had negative comp sales for the first quarter, which shaved points off comp sales overall.

The Home Depot turned on curbside pickup capability for Ontario essentially overnight when it became the only option to remain operational for more than a month.

MARKET TRENDS

How People Spent Stimulus Checks

The number one priority for 30% of people receiving stimulus checks was paying their bills, according to MarketWatch. Paying for housing, rent, utilities, cell phones and cable TV were the top choices, followed by purchasing essentials and "relief spending" on apparel, televisions, video games, sporting goods, toys and alcohol. Unemployment in 43 states set new records, reaching 28.2% in Nevada, 22.7% in Michigan and 22.3% in Hawaii. Analysts had originally speculated that people might use the substantial infusion of cash to fund big ticket purchases such as automobiles and appliances. Congress is currently negotiating a Phase 4 bill, but Capitol Hill analysts don't think they will pass anything until at least June.

Mortgage Lenders Tighten Standards

Mortgage rates are at record lows, but lenders have put higher credit score and downpayment requirements in place and some have stopped issuing certain types of loans altogether. Industry watchers say that lenders have become risk-averse with Congress allowing millions of borrowers to delay monthly payments and policies implemented during the pandemic by mortgage giants Fannie Mae and Freddie Mac. One model shows that mortgage credit availability has plunged by more than 25% since the US outbreak of CV19. In March, riskier buyers could get a loan by paying a premium, but in many cases they are now being denied. Wells Fargo increased its minimum credit score to 680 for government loans from the typical score of 580 and JP Morgan is requiring minimum credit scores of 700 and a downpayment of 20% on most mortgages, including refinances. Home equity lines of credit have also been suspended.

Buyers Priced Out in Major Metros

In 20 of the 50 largest US metros, list prices in the first quarter were more than five times the income of the median first-time home buyer. In addition, the number of active listings dropped by 19% compared to Q1 2019. First-time buyers are generally younger than repeat buyers, have lower incomes and potentially less robust credit histories, all of which can create obstacles in today's market. The median first-time homebuying age is typically 33. In 39 of the 50 most populous US metros, home prices rose 4% during the first quarter compared to Q1 2019 and the number of active listings dropped an average of 19%. The average list price in Los Angeles rose 21% year over year to $953,000, making L.A. the priciest metro for first-time buyers.

The Race to be Last Back to the Office

Many white-collar companies are in no hurry to get employees back into the office. Google, Facebook and Zillow told employees they could work from home for the rest of the year. Amazon is saying October. Capital One said Labor Day, possibly longer. Nationwide Insurance is shuttering five offices around the country and having those 4,000 employees telecommute permanently. Outbreaks subsist in one area, only to flare up in another. Almost every day in May there were at least 20,000 new cases in the US. Analysts speculate that even when CV19 no longer mandates working from home, working remotely will likely retain a significant presence in corporate life. That will help shape the future of cities, retail and support services, businesses and the commercial construction and real estate industries. It will also change the culture at companies that have been building elaborate campuses designed to make people happy to remain at work. Working from home cuts the costs of commuting, gives employees more free time and is good for the environment. But it's bad for businesses that depend on the morning coffee crowd, lunch hour dining and shopping and bustling happy hours and after work activities.

Building a Virus-Free Supply Chain

Amazon has had to quickly adapt their legendary supply chain to allow for the realities of keeping employees safe during a pandemic. Amazon's warehouses and other processes are designed for the high efficiency that helps keep prices very competitive. But those same practices interfere with social distancing and constant cleaning and sanitizing. Amazon reports that they have had to create more than 150 new processes in order to adapt, from deep cleaning and distributing masks to employees to adding more than 1,115 thermal cameras and 2,298 handwashing stations. Amazon has also released footage of trials of robotic cleaners, which use UV light to eliminate the virus on surfaces. So far Amazon reports spending $800 million on such measures, all of which eat into profits. In fact, Amazon expects to invest all of their second quarter profits, estimated to be about $4 billion, in CV19 response. Up to $1 billion may be spent on their private testing project by the end of the year. Analysts speculate that one of the objectives is to create testing stations for Amazon employees that can return test results in minutes. Daily screening plus their current precise tracking and tracing of employees would ensure that any worker who comes into contact with someone who is infected can be quickly quarantined. Analysts say that Amazon is in a unique position to virus-proof their supply chain, because they control the goods coming into their warehouses, the warehouses themselves and product delivery. Markets punished Amazon shares after the news, but analysts point out that this type of large-scale investment when so many other companies are pulling back is typical of Amazon, and often produces game changing solutions and eventually big profits.

Online Retailers Back USPS Bailout

A powerful coalition of online retailers, including Amazon and CVS, plans to pour $2 million into ads opposing President Trump's call for higher package delivery rates. The coalition is asking Congress to help support the Post Office. Many of the companies have already been quietly lobbying, but the president has said he will not sign any further relief package that helps the Post Office unless it raises rates. The companies involved say that in order to keep the market competitive and operations efficient, an affordable USPS is critical. Post Office losses more than doubled to $4.5 billion in the quarter ending in March. The USPS warned that the economic slowdown being caused by CV19 could severely hurt finances in the next 18 months. The Post Office has requested funding from Congress and unrestricted access to borrowing. The USPS Parcel Select business, which primarily handles ecommerce packages, delivered 2.9 million packages and brought in revenue of $6.8 billion during the fiscal year ending in September 2019. Reportedly, the USPS has launched a review of package delivery contracts with large shippers, including Amazon, UPS and FedEx. The Postal Service Board of Governors is made up of presidential appointees, and recently named Louis DeJoy as postmaster general. DeJoy is also the finance chair of the Republican National Convention. According to a review by the Postal Regulatory Commission, shippers get discounted rates for some US ZIP codes in urban areas, but not on roughly 23,000 ZIP codes outside of urban areas, where shipping is more competitive.

Forbes Global 2000 Reflects Pandemic

The CV19 pandemic has separated retailers into not only essential and non-essential but also into those who are structured to take advantage of the new normal and those who are not. Some of the factors include the immediate acceleration of curbside pickup, store-door delivery and ecommerce. Walmart jumped 10 spots to Number 19 on Forbes' Global 2000 list of the world's biggest public companies, as measured by a composite score of revenues, profits, assets and market value. Amazon gained six spots, coming in at Number 22. The Home Depot rose 20 spots to Number 106 and Lowe's rose 60 spots to Number 173. Meanwhile, mall-based apparel retailers are struggling to just remain open, with pricey Neiman-Marcus and main street J.C. Penney both filing for bankruptcy protection.

Oil Crisis Impacts Economy

Oil prices turned positive again in early May after Saudi Arabia initiated voluntary cuts in production and helped ease the tension with Russia. However, global oil demand has plummeted by about 30% as the pandemic curtails movement around the world. Goldman Sachs predicted that oil demand will begin recovering quickly, but will not fully recover due to less airline travel which results in lower demand for jet fuel. The oil and gas industry in the US is responsible for 10.3 million jobs and contributes 8% to GDP.

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