BOSCH

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Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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US ECONOMY

Exchange Rates February 28, 2019

Euro	1 Euro = $1.138	$1.00 = 0.879 Euros
Canadian Dollar	1 CAD = $0.760	$1.00 = 1.317 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 111.391 Yen
Chinese Yuan	1 Yuan = $0.149	$1.00 = 6.694 Yuan
Mexican Peso	1 Peso = $0.052	$1.00 = 19.268 Pesos

Market Watch February 28, 2019

DOW	25,916	3.7%
NASDAQ	7,533	3.4%
S&P 500	2,784	3.0%

The markets rose for the second consecutive month, cheered by positive progress on trade issues, low unemployment, moderating mortgage rates and better-than-expected GDP.

Consumer Confidence Rises to 131.4

The New York-based Conference Board's Consumer Confidence Index rebounded in February, rising to 131.4 after falling to 120.2 in January, 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 173.5 after dropping to 169.6 in January. The Expectations Index, which is based on consumers' short-term outlook for income, jumped 14 points to 103.4 after falling sharply in January. The index is still below the peak of 137.9 reached last October. 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 Drops 0.5%

Consumer spending dropped 0.5% in December after rising an upwardly revised 0.6% in November. It was the biggest decline in consumer spending since September 2009. Core consumer spending fell 0.6% in December after rising 0.5% in November. Spending on goods dropped 1.9%, while spending on services edged up 0.1%. The Commerce Department released January personal income, but did not publish January consumer spending or other stats because the collection and processing of retail sales data was delayed by the 35-day government shutdown that ended January 25. Personal income slipped 0.1% in January after jumping 1.0% in December. It was the first decline in personal income since November 2015. Savings in December increased to $1.2 trillion, the highest level since December 2012, and the saving rate jumped to a three-year high of 7.6%. The personal consumption expenditures (PCE) price index excluding food and energy rose 0.2% in December after a similar gain in November, leaving the year-over-year increase at 1.9%, still slightly below the Fed's inflation target of 2.0%.

Consumer Prices Flat

The Consumer Price Index (CPI) was flat in January after falling 0.1% in December. The CPI rose 1.6% over the past twelve months, down from a 1.9% annual increase in December. Core inflation, which excludes food and energy, rose 0.2% for the fourth consecutive month and was up 1.9% from January 2018. Declining energy prices offset price growth in other major categories and held down overall inflation. Muted inflation has allowed the Fed to take a breather from raising short-term rates. The strengthening dollar is also depressing inflation.

Unemployment Drops to 3.8%

The unemployment rate dropped to 3.8% in February after rising to 4% in January but the economy added just 20,000 new jobs, well below expectations. However, job gains for January were revised up to 311,000, bringing the three-month average to 186,000 new jobs. Some of the drop in unemployment was due to federal workers being back on the job after the end of the shutdown. Average hourly earnings rose 0.4% in February after growing just 0.1% in January. Earnings were up 3.4% year over year. With wage growth strengthening and more people employed, analysts expect consumer spending to remain solid. Construction payrolls dropped by 31,000 jobs as February brought more normal winter weather after a mild January. The economy needs to create about 120,000 new jobs each month to keep up with growth in the working-age population.

Durable Goods Rise 1.2%

Durable goods orders rose 1.2% in December after rising an upwardly revised 1% in November. Economists had forecast a 1.4% increase in orders. The increase was primarily due to a jump in orders for automobiles and airplanes, but demand was weak in other key manufacturing segments. Core durable goods orders for non-defense capital goods excluding aircraft, widely regarded as a key indicator of business spending, fell 0.7% in December after falling an upwardly revised 1% in November but was up a healthy 6.1% for the full year. Non-defense capital goods shipments, which factor into GDP, rose 0.8% in December after rising a downwardly revised 1% in November. The durable goods report is volatile and often subject to sharp revisions.

Chicago PMI Rises to 64.7

The Chicago Purchasing Managers' Index (PMI) rose 8 points to 64.7 in February after falling to 56.7 in January. It was the 25th consecutive month the PMI was above 50, the level that indicates growth. Four of the five components of the Index rose, with only Supplier Deliveries falling. New Orders rose 15.2 points, Production rose 8.5 points to a six-month high and Order Backlogs rose 5.6 points. Prices Paid posted the first increase in seven months, rising 6.6% on a year-over-year basis. The panelists were asked how another interest rate hike would impact their business. Just under 49% of firms thought it would have a negative impact, while 46.7% thought it would not impact their business at all. However, 42.6% of firms said the lack of agreement on trade issues had negatively impacted their business. Overall, firms remain optimistic about their business prospects.

Wholesale Prices Fall 0.1%

The Producer Price Index (PPI) fell 0.1% in January after falling 0.2% in December and was up 2.5% from January 2018. Core producer prices, which exclude food, energy and trade services, rose 0.3% in January after being flat in December and were up 2.6% from January 2018. The Labor Department said that sharp drops in food and energy prices more than offset rising prices for trade services, which advanced 0.8%, accounting for more than 80% of the total increase in prices.

Q4 GDP Grows 2.6%

GDP growth slowed to 2.6% in the fourth quarter after slowing to 3.4% in the third quarter, according to the Commerce Department. Growth was better than expectations of 2.3%. The GDP report was delayed by the government shutdown. The Commerce Department said they could not quantify the full effects of the shutdown, but estimated the partial closure subtracted about one-tenth of a percentage point from Q4 growth. They also pointed out that source data used to develop the estimate is still incomplete and there may be further revisions. GDP grew 2.9% in 2018, the best performance since 2015 and much better than the 2.2% the economy grew in 2017. Growth in consumer spending increased at a strong 2.8% in the fourth quarter after growing 3.5% in the third quarter. Business fixed investment (BFI) spending grew a robust 6.2% in Q4 after growing just 2.5% in the third quarter. The construction component of BFI remained weak, with residential construction falling for the fourth consecutive quarter, due to rising home prices and higher mortgage rates. GDP growth is expected to slow further in the first quarter to 1.8% before picking up to 2.5% in the second quarter. The Congressional Budget Office (CBO) estimated that the 35-day government shutdown will cost the government about $3 billion and will shave about 0.4% from annualized GDP in the first quarter. Economists believe a big slowdown in China's economy and slower growth in Europe are reducing demand for American exports and making companies more reluctant to begin long-term projects. Consumer spending accounts for more than two-thirds of US economic activity.

Job Openings Hit Record High

The number of job openings surged to 7.3 million jobs in December after falling to 6.9 million in November, according to the most recent Job Openings and Labor Turnover Survey (JOLTS). That lifted the job opening rate to 4.7% from 4.6% in November. Construction vacancies increased by 88,000 jobs. Hiring continued to lag job openings in December, rising to 5.9 million from 5.8 million in November. There were 1.2 job openings for every unemployed person in December. The labor market has enjoyed a record 100 consecutive months of job gains, but the growing shortage of workers is expected to slow job growth down to about 150,000 jobs per month. The increase in job openings caused economists to worry that a shortage of workers could hurt the economic expansion that has now lasted for 9 1/2 years, making it the second longest expansion on record. The JOLTS report is one of the Fed's preferred economic indicators.

Fed Patient on Interest Rates

The Fed stated that they can be patient as there is no need to raise rates right now. Fed Chairman Jerome Powell told the

Senate Banking Committee that the Fed has been trying to decipher conflicting signals, including disappointing retail sales and other economic indicators that have been below expectations that are in contrast with steady hiring, wage growth and ongoing low unemployment. The Banking Committee did not push back as they have in the past, and no one suggested that the central bank was flirting with inflation or financial risks by leaving rates too low. The Fed raised rates four times in 2018 and has vowed to be patient this year until data suggests action needs to be taken. Wells Fargo believes that another rate hike will eventually ensue this year, but the Fed will then remain on the sidelines through much of 2020. They also forecast that real GDP will grow at an annualized rate between 2.0% and 2.5% this year. In addition, the very low unemployment rate will continue to put some upward pressure on wage inflation. The Fed raised rates four times in 2018 and had originally penciled in two increases for this year. Fed Chairman Jerome Powell's statement is noteworthy because he has long favored a more aggressive outlook for monetary policy.

Budget Deficit Grows

The federal budget deficit totaled $13.5 billion in December, pushing the deficit for the first three months of the budget year up 41.8% from the same period the previous year. Tax revenue is up just 0.2%, reflecting the impacts of the tax cuts passed in 2017. The deficit is expected to total $897 billion in 2019.

Workforce Advisory Board Formed

The White House named prominent business execs to its newly formed workforce-policy advisory board, including the leaders of Home Depot, Walmart, IBM, Apple and Visa as well as education and labor officials. The 25-member board was established by an executive order in July that created the National Council for the American Worker. The first attempts to create the council fell apart after business leaders disagreed with President Trump's handling of the white-supremacist rally in Charlottesville, Virginia in August 2017.

China Tariffs Delayed

President Trump tweeted out the news that he was delaying the tariffs due to take effect March 1 because trade negotiations with China have been very productive, and he plans to meet with Chinese President Xi Jinping at Trump's resort in Mar-a- Lago, Florida to hammer out a final agreement.

Recession in 2021?

A majority of US economists expect the country to go into a recession by late 2021, according the most recent survey by the National Association of Business Economics (NABE). Their survey of 300 economists showed that 10% believe the US could go into recession this year, 42% believe a recession will begin in 2020 and 25% expect the contraction to begin in 2021. Most economists expect the Fed to raise interest rates once or twice this year. Most are concerned about the impact of tariffs and the US budget deficit, which could exceed 4% of GDP this year.

HOUSING & CONSTRUCTION

Housing Starts Fall 11.2%

Housing starts fell 11.2% in December to a seasonally adjusted annual rate of 1.08 million units. **Single-family starts dropped 6.7%** to 758,000 units, the fourth consecutive month single-family starts have declined. Multifamily starts fell 20.4% to a seasonally adjusted annual rate of 320,000 units. Starts have declined in three out of the past four months. Both single-family and multifamily starts each posted a yearly gain. Single-family production was up 2.8% in 2018 to a rate of 872,800, the highest annual figure since the Great Recession. Multifamily starts rose 5.5% in 2018 to 373,700 units. NAHB noted that the drop in December correlated with the peak increase in mortgage rates and corresponding decline in builder sentiment, which caused a delay in actually starting construction on units that had already been permitted. NAHB expects single-family production to be relatively flat in 2019 and also expects multifamily starts to level off. Housing affordability will be the biggest challenge facing builders a they deal with a shortage of construction workers and a lack of buildable lots. **Regional starts were mixed.** Single-family and multifamily housing starts were unchanged in the Northeast. Starts fell 26.3% in the West, 13.2% in the Midwest and 6% in the South.

Building Permits Rise 0.3%

Building permits inched up 0.3% in December to a seasonally adjusted annual rate of 1.33 million. **Single-family permits fell 2.2%** to an 829,000-unit pace in December while multifamily permits increased 4.9% to an annualized rate of 497,000. For

2018, single-family permits rose 4% to 852,700 and multifamily permits edged down 0.9% to 458,000. **Regional permit issuance was mixed.** Permits rose 17.1% in the West. Permits were down 6% in the Northeast, 17.6% in the Midwest and 2% in the South.

New-Home Sales Rise 3.7%

New Home sales jumped rose 3.7% in December to an annual rate of 621,000 units, but sales for November were revised down substantially. Sales were up 1.5% for 2018. The inventory of new homes for sale continued to rise, reaching 344,000 new homes after rising to 330,000 in November. The median sales price increased to $318,600 in December, although it is down considerably from $343,300 in December 2018. The drop is primarily due to the increasing use of price incentives and a gradual shift toward adding inventory at entry-level prices. **Regional new home sales for 2018 were mixed.** New home sales dropped 16% in the Northeast and 1% in the West. Sales rose 4% for the year in the South and 6% in the Midwest. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

Existing Home Sales Fall 1.2%

Existing home sales fell 1.2% in January to a seasonally adjusted annual rate of 4.94 million units after falling 6.4% to 4.99 million in December. Sales were down 8.5% from January 2018. **Single-family home sales dropped 1.8%** to 4.37 million units while condo sales rebounded and increased 3.6% to 570,000 units. **Regional sales were mixed.** Overall sales slipped in every region except for the Northeast, where sales rose 2.9%. Sales in the West, where supply and affordability issues are the greatest, dropped 2.9%. Sales fell 2.5% in the Midwest and 1.0% in the South. Inventory levels rose 4.6% to 1.59 million homes, but remain low by historical standards. January marked the 83rd consecutive month of year-over-year increases in home prices, but home appreciation has definitely moderated. The decline in sales was expected, as interest rates reached nearly 5% in November. Wells Fargo projects that there will be a modest improvement in existing home sales this year.

Builder Confidence Rises to 62

Builder confidence rose four points to 62 in February after rising to 58 in January, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). The gradual decline in mortgage rates and strengthening job market are both positive signs for future sales. All the HMI components posted gains for the second consecutive month in February. The index measuring current sales conditions rose three points to 67, the component gauging expectations in the next six months rose five points to 68 and buyer traffic rose four points to 48. **The three-month moving averages for regional HMI scores were mixed.** The South gained one point to 63, the Northeast dropped two points to 43 and the Midwest and West were unchanged at 52 and 67, respectively.

Mortgage Rates Fall to 4.35%

A 30-year fixed-rate mortgage (FRM) fell to 4.35% at the end of February after falling to 4.45% at the end of January, marking the third consecutive month rates have declined. The 30-year FRM was 4.43% at the end of February 2018. Rates are currently hovering at approximately the same levels they were at last spring. Freddie Mac says weekly mortgage activity has been rising and pending home sales have risen, pointing to a strong spring selling season.

POWER TOOL INDUSTRY

Stanley Black & Decker

Barclays Industrial Select Conference:

They have long-term financial objectives of 4% to 6% organic growth, 10% to 12% total revenue growth and EPS growth of 10% to 12%.

Commodity inflation, tariffs and currency negatively affected margins last year, and they will be discussing some significant margin enhancement initiatives at their Investor Day in May. It is not realistic to think that they are going to recover all of the impact of headwinds through price increases.

Analysts commented that Stanley's outlook on the US economy seems to be more negative than the outlook of many other companies they have heard from in the past two months. CFO Don Allen said that they have businesses that are tied to the auto production industry and their Tools business is tied to US housing, both areas being pressured. That's what accounted for them dropping their organic growth target from 5% to 4% for this year. They project the Tools business will grow between 5% and 6%.

Competition in the tools market is very intense. There are very strong competitors, but they all make different decisions based on different goals and objectives. It does appear that the commodity cycle is starting to turn around and currency is stabilizing. No one knows where tariffs are really going.

They promised a significant new innovation in the Tools business within the next 12 months. They want to be known as drivers of innovation.

Other News:

SB&D is opening a new 1.2-million-square-foot regional distribution center in Alliance, Texas that will service central and southern states. The center will employ more than 300 workers when it opens in March.

SB&D recalled more than 120,000 DeWalt drills due to a potential shock hazard. According to the Consumer Product Safety Commission (CPSC) the drill's wiring can contact internal moving parts. The recall is of drill models DWD110 and DWD112 models marked with an "X" after the date code. The drill was sold at The Home Depot, Lowe's and other stores nationwide as well as online through Amazon from September 2017 through November 2018.

Trimble

Q4 revenue rose 12% to $785.5 million. Buildings and infrastructure revenue rose 40% to $287.0 million. CEO Steven Berglund said that the robust fourth quarter closed out a record-setting year for the company. Revenue growth was aided by the strong performance of recent acquisitions.

Full year revenue for fiscal 2018 was up 17% to $3.1 billion, and Buildings and Infrastructure revenue was up 31% to $1.1 billion.

Trimble is introducing a new wearable hard hat compatible device that enables workers in safety-controlled environments to access holographic information on the worksite. The new HoloLens 2 was created by Trimble's Mixed Reality group in partnership with Microsoft and provides workers with greater access to 3D models.

RETAIL

Retail Sales Fall 1.2%

Retail sales for December fell 1.2% after rising a downwardly revised 0.1% in November. Sales were up 2.9% from December 2017. Total retail sales for 2018 were up 5% from 2017. Core retail sales, which exclude food services, car dealers, building-materials stores and gasoline, were down 1.7%, the biggest drop since the September 11, 2001 terror attacks. All but two of 13 major retail categories showed declines, with online stores dropping 3.9%, the biggest decline in that category since November 2008. Economists noted that falling gasoline prices and a rebounding stock market should strengthen sales in the months to come.

Holiday Retail Sales Grow 2.9%

Holiday retail sales for 2018 grew 2.9% to $707.5 billion, well below expectations of 4.3% to 4.8% growth. The National Retail Federation commented that it appears that worries over the trade war and turmoil in the stock markets impacted consumer behavior more than expected. Online and other non-store sales grew 11.5%; expectations were for growth between 11% and 15%. Sales at building materials and garden supply stores were up 1.6% to $61.5 billion. In November sales grew 5.1% year over year, but December growth fell to just 0.9%. The NRF is forecasting that retail sales will increase between 3.8% and 4.4% to more than $3.8 trillion this year.

The Home Depot

Q4 sales rose 10.9% to $26.5 billion, below estimates of $26.6 billion. **Comp store sales rose 3.2%** overall and 3.7% in the US, also below analysts' forecast of a 4.5% increase. Sales in Canada were essentially flat.

Fiscal 2018 sales grew 7.2% to $108.2 billion, making it a record year for THD.

For 2019, THD expects sales to grow 3.3% and comp sales to grow 5%.

Q4 Conference Call with Analysts:

The fourth quarter faced tough comps because there was $400 million in hurricane-related sales in Q4 2017. They had planned for that, but not for the unfavorable weather experienced in all regions throughout the quarter. It was cold, snowy and wet; CEO Craig Menear noted that nothing delays projects like wet weather.

CEO Craig Menear said he is particularly excited about the investments they are making for Pros. During the quarter, they announced a consolidated approach for Pro customers under the banner Home Depot Pro. They continue to invest in a more personalized offering for Pro customers with a new B2B web experience. They now have more than 100,000 Pro customers in the test program and have plans for continuous enhancements and new features and capabilities. They intend to roll out the new Pro online experience to more than one million Pros in 2019.

They continue to make big strides in driving the digital experience. Online sales grew 22.7% in the fourth quarter and 24.1% during fiscal 2018, and represented 7.9% of total sales.

Approximately 50% of online orders in the US are picked up in store, and 94% of customers give their locker pickup experience four out of a possible five stars.

Approximately 40% of US stores now have a new look and feel and customer response has been very positive.

They are also working on enhancing the delivery and fulfillment process and spent last year testing several pilots to help them create the most efficient delivery network.

Tool comps were above average for the quarter.

In Q4 average ticket increased 2.3% and comp transactions increased 0.9%. The year was very volatile for many commodities, especially lumber. In the fourth quarter, deflation and lumber negatively impacted average ticket growth by 41 basis points.

Big ticket comp transactions of $1,000 or more, which represent 20% of US sales, were up 4.8%. Excluding hurricane-affected markets, big-ticket comp sales in January were up almost double-digits compared to 2018.

Pro-heavy categories were very strong, including power tools, water heaters and commercial and industrial lighting.

Black Friday produced the single-highest sales day in company history.

Last year they formed 50 cross-functional teams charged with improving the online customer experience. The teams have accomplished a great deal in a short time. In 2018 they had a milestone of 2 billion online visits and their conversion rates consistently improved throughout the year. This year they will continue to roll out digital enhancements.

Total sales per square foot increased 7.2% to $447, the highest in company history. At the end of the fourth quarter merchandise inventories grew $1.2 billion to $13.9 billion and inventory turns were 5.1 times, flat compared to fiscal 2017.

During the year they invested approximately $2.4 billion in the business through capital expenditures. This year they plan to invest $2.7 billion to support their strategic initiatives.

They are using GDP growth of 2.6% for planning purposes for this fiscal year. They factor in the expected spending impact from key housing metrics, including home price appreciation, housing turnover, household formation and the age of housing stock, and use the results to plan sales growth.

Weather adversely affected sales in many markets. Markets that were not affected by bad weather in the fourth quarter had outstanding performance. Comp sales in Seattle were up 6.3%.

The Harvard Joint Center for Housing is forecasting 5% growth for remodeling activity in 2019, according to Carol Tome, which factored into their projections for the year.

Their plan is commodity-inflation neutral, and there is nothing built in for tariffs, as they feel it is impossible to plan for things that might or might not happen, although if the tariffs with China had actually been put in place, they had programs in place to manage through that.

They have seen increased cost expectations from suppliers, based on wages, transportation, supply chain, fuel and other things they are experiencing. It appears that some of those pressures may actually be abating a bit.

Their five direct fulfillment centers are already providing one and two-day delivery service to more than 90% of the population. Home Depot Pro will give them nearly national coverage with next day delivery via 700 private fleet trucks. They've opened three market delivery operations and have openings and groundbreakings planned throughout the year on new platforms, market delivery operations, flatbed delivery centers and more. Their car delivery option covers 40% of the US population; 70% of the population is covered when you add in van delivery options.

They have tried to work the impact of gas prices into their projections but have never been able to draw a solid correlation.

Other News:

THD is cutting four underperforming units from their exterior installation business, including roofing, siding, insulation and gutter installation. THD will continue to offer dozens of other installation services. Some of the affected 1,000 employees may be moved to other departments. THD says they are still committed to exterior installation services, but just did not see the potential for enough growth in the units they cut.

THD increased their commitment to procure more energy from alternative sources including wind and solar power. THD entered into a 15-year power purchase agreement with Pretty Prairie wind farm in Kansas. The power purchased will be enough to supply about 40 stores for a year. THD also buys power from wind farms in Texas, Delaware, Massachusetts and Minnesota, as well as Mexico. THD is targeting a 40% reduction in carbon emissions by 2030 and a 50% cut by 2035.

The Home Depot has invested in delivery service Roadie, which is advised by Frank Blake, the former CEO of The Home Depot. THD has also partnered with Deliv, with an objective of rolling out express same-day and next day local delivery for thousands of items to 35 major metros across the US. Roadie said its same-day delivery footprint now reaches more than half of all US households, including small cities and towns.

Lowe's

Q4 sales rose 1.0% to $15.65 billion. Comp store sales rose 1.7% overall and 2.4% in the US. Comp sales in the US rose 5.8% in January, the final month of the fourth quarter of FYI 2018. Full-year sales rose 2% to $71.31 billion. Lowe's expects sales in fiscal 2019 to rise 2%, with comp store sales rising 3%.

Lowe's anticipates continued weakness in the Canadian housing market in the near-term, but remains confident in their market position in Canada and the long-term potential of the Canadian business.

Q4 Conference Call with Analysts:

Comp sales were positive in 11 of 14 geographic regions and eight of 11 product categories. Great offers in tools and hardware delivered above average comps. Craftsman products gained market share across every category. Online comps grew 11% for the quarter.

Average ticket grew 4.6% in the fourth quarter to $76.96 but total transactions declined 3.6%. Comp sales growth of 1.7% was driven by an average ticket increase of 2.3% and partially offset by a 0.6% decline in transactions.

Website traffic was good but they were unable to fully capitalize on traffic due to systems challenges. The holiday season made it clear that they needed to redirect their online strategy and focus. Therefore they made a leadership change in January, hiring Mike Amend as the new President of Online business. Mike will work with their new CIO Seemantini Godbole, who previously ran Target's online business, to aggressively transform lowes.com this year. Approximately 60% of online orders are picked up in store.

They are focusing on four key areas: driving merchandising excellence, transforming the supply chain, delivering operational efficiency and intensifying customer engagement.

Their second area of focus has changed since their analysts and investors conference from omnichannel to supply chain transformation. They believe improvements in all four key areas will deliver a better omnichannel experience for customers.

They believe the US home improvement business will benefit from several factors, including income growth, lower federal tax rates, rising household formations and home price appreciation. In addition, housing stock is aging and people are staying in their homes longer.

The executive team, which primarily consists of new hires, makes store visits weekly. They are still seeing pockets of inconsistent execution, but they are also beginning to see improvements in key areas.

They are delivering better customer service, and customer satisfaction scores have improved for both DIY and Pro customers.

The merchandise service team (MST) pilot showed positive results. These teams are funded by their vendors and add an average of eight full-time employees per store. They are responsible for the day-to-day maintenance of presentations in the stores. They are critical to execution and are taking time consuming tasks off the shoulder of employees, freeing them up to spend more time with customers. They value their vendors, and realize they have a history of being inconsistent with their vendors and are now trying to be very transparent and make sure the teams communicate with vendors frequently.

They are seeing strong customer response to Craftsman and are very excited about the product launch of Craftsman outdoor power equipment this spring. Their research shows that approximately 60% of Craftsman customers were not previously Lowe's customers. So Craftsman is driving traffic and bringing in new customers. They will continue rolling out Craftsman products this spring.

They are seeing positive results in their Pro business, partially driven by their investment in job lot quantities. The test markets were very successful and they are rolling the program out nationwide this spring. The Pro customer will be a key focus in 2019. They will be investing in dedicated supervisors and increased service for Pros. They have high expectation for Pro, but have a lot of work to do. Many Pros stopped shopping at Lowe's because of chronic out of stock situations. They need to serve current customers better and attract new customers. They brought in a few very experienced leaders for Pro and feel good about the progress they are making.

This spring they will be rolling out their field merchandising teams (FMTs). They will focus on meeting the needs of customers in the local market and making sure products are locally relevant.

They will dramatically increase their online assortment in 2019 as they shift slower moving SKUs out of stores and onto the website to improve inventory turns.

They instituted programs within the stores to make sure they are keeping shelves stocked, and since the launch they have seen in stocks improve 15%. They gave store managers limited autonomy to reorder appropriate quantities of low risk, high velocity SKUS to improve in stock on key items.

They eliminated some responsibilities of associates so they can focus on selling and customer service, and as a result have seen an increase in sales productivity and customer satisfaction scores.

During the first quarter they are training all associates on smart customer service and will also rollout smart mobile devices to stores, so associates will have real-time data at their fingertips and won't have to leave the sales floor to check prices, stock quantities or order status.

They are also rolling out a new labor scheduling system that will better predict customer demand and let them align labor to peak traffic times.

They are replacing a series of non-customer facing positions with more than 600 assistant store managers and more than 5,000 department supervisors.

Margins were pressured during the quarter by supply chain and transportation costs, tariffs and a shift in product mix.

By the time new merchandising chief Bill Boltz took over in mid-August planning for spring was well underway, so they had to make a lot of adjustments in a very short time frame heading into the holidays. One of the changes they made was in quickly setting spring merchandise rather than using floor space to clear out holiday.

The paint department was one of their first areas of focus and they are very pleased with the results so far and their partnership with Sherwin Williams.

They have made a lot of progress in a very short period of time, but have a ways to go to become the great company they know they can be.

Walmart

Q4 revenue rose 1.9% to $138.8 billion, and full year revenue rose 2.8% to $514.4 billion. Online sales jumped 43%. CEO Doug McMillon said that their US business exceeded their expectations even as they invested in ecommerce and wages. He said they plan to "play offense" as they continue to innovate in ecommerce.

McMillon noted that progress is slower than they would like. They are trying to build an apparel, home and hardlines business that brings customers back, but including the brands they want to add is taking longer than they would like.

Guidance for 2019 includes Walmart's US comps growing 2.5% to 3% and Sam's Club expanding about 1%. US ecommerce is expected to grow net sales by about 35%.

Walmart and logistics firm Deliv have ended an alliance to deliver food ordered over the internet. Deliv was one of Walmart's first partners. People familiar with the situation said that Deliv drivers often had to wait 40 minutes or more to pick up food orders, partially because Walmart gives customers priority over delivery drivers during regular hours. Walmart said that the decision to end the alliance was mutual.

Menards

Menards has stopped purchasing paint removers that contain a pair of chemicals blamed in dozens of deaths after company officials were pressured by many different advocacy groups. The chemicals are methylene chloride and N-methyl pyrrolidone or NMP. Many other companies, including Walmart, Home Depot, Lowe's and Sherwin-Williams, earlier agreed to stop selling paint strippers with the dangerous compounds. Brand names involved include Klean Strip, Goof Off and Jasco.

Sears

Sears is reportedly looking for a new CEO who would work under Eddie Lampert, but analysts say the position could be very difficult to fill. Candidates will be concerned about the realities of working with the high-powered hedge fund owner and analysts doubt Lampert will be able to give the CEO autonomy to operate independently.

Sears launched a new line of Craftsman tools that feature tool sets designed for mechanics. The collection is exclusively available at Sears and Sears Hometown stores as well as online at Sears.com. The new line was reportedly created with input from mechanics.

Sears says that more than 40 Kenmore smart appliances have been certified as "Works with Alexa," meaning that they meet Amazon's criteria for responsiveness, reliability and functionality. Customers will be able to use voice commands via Alexa to control their Kenmore appliances, including washing machines, dryers, dishwashers and refrigerators.

Ace Hardware

Q4 revenues rose 5.7% to $1.39 billion and full-year revenues rose 6.1% to a record-setting $5.7 billion. CEO John Venhuizen said that strong new store growth, a 1.4% increase in comp sales and a 43% increase in online revenue all contributed to the strong Q4 results. Average ticket rose 3.3% and comp store sales rose 1.3%. For the full year a comp sales increase of 2.3% and an average ticket increase of 3.3% was partially offset by a 0.9% decrease in comp transactions. Power tools, outdoor living and electrical showed the largest gains.

True Value

True Value hosted their 2019 Spring Reunion in Dallas in late February. More than 7,000 people were expected to attend, including 3,000 independent retailers. A new program is called The Pro Yard, a display of more than 300-linear feet of customer pro-focused lumberyard assortments set on 5-foot fixtures. They hosted a Retailer Best Practices Conference and a 500,000 square feet showroom filled with attendee-only deals.

True Value will invest $150 million in supply chain optimization, including a new distribution center in Pennsylvania. The 1 million square feet of distribution space is currently under construction. The center will support the entire Northeast region, which consists of more than 1,000 retail locations. True Value currently operates 13 distribution centers. The center is scheduled to open this fall.

Amazon

Amazon canceled plans to build one of two new regional headquarters in New York after strenuous opposition to tax breaks and other incentives offered to the company. Amazon was also opposed to being required to allow its New York workers to unionize. The final straw appeared to have been the appointment of Senator Michael Gianaris, a very vocal opponent of Amazon, to the little-known state board that would have had to approve New York City's deal to bring Amazon to Queens.

Amazon plans to acquire eero inc, a company that offers products and services for high-performing home WiFi that utilizes the eero app. Eero systems are self-updating, self-fixing and self-improving in real time as they communicate with the cloud for instructions and updates.

Amazon is launching a new program called "Shipment Zero," an aggressive supply chain carbon initiative with the goal of net zero carbon emissions for 50% of Amazon shipments by 2030. Amazon's long-term goal is to have net zero carbon emissions for all deliveries and to power all of its global infrastructure using 100% renewable energy. Amazon already operates 11 solar and wind farms in Indiana, Virginia, Ohio, Texas and North Carolina.

Amazon is using two accelerator programs to get brands to sell on their platform. The Brand Accelerator Program is targeted at startup brands, and helps them get off the ground by funding marketing efforts and other costly retail logistics like shipping and inventory management. Amazon asks for a level of long-term commitments from the brands, including sales minimums and advertising on the platform. Brands have to be able to do at least $1 million in sales during their first month on Amazon, maintain healthy inventories and have expertise in digital marketing and brand building. A minimum of 5% of all revenue earned on Amazon must be channeled into Amazon's paid ads program. The Manufacturer Accelerator Program is aimed at retailers who can help drive Amazon's private-label business by producing products. Sources are not sure when these programs began, but they have been in existence for a minimum of two years. Amazon does not provide participants with direct access to customer data.

Amazon is testing a new ad format that prompts users to review products they've purchased within display ads on Amazon.com by tapping on a number of stars to leave feedback. The ads will be sold to participating brands on a cost per review basis.

Amazon unveiled Amazon Moments, a cross-platform marketing tool that delivers instant rewards to customers who reach preset goals or complete desirable actions. Customers receive a digital message or email they can use to redeem their rewards, such as discounts on merchandise. Brands set the parameters and goals they want met.

Amazon has patented technology that would allow customers to pick up orders on their bus or train commute. The patent describes mobile pickup containers in public buses and trains where commuters could retrieve Amazon packages on the way to the office or home. Users select the option via an app.

CANADA SNAPSHOT

Interest Rates Steady

After leaving interest rates unchanged at 1.75% at its meeting in early January, in February the Bank of Canada (BoC) commented that the latest economic data poses problems for getting rates back to the estimated neutral range of 2.5% to 3.5%. A neutral rate is the level at which interest rates neither heat up the economy nor slow it down. The bank comments suggest that further increases in rates are not likely until later this year. The bank has raised the key rate five times since 2017.

Unemployment Steady

The unemployment rate was unchanged at 5.8% in February although the economy added 56,000 new jobs overall, according to the latest Labour Force Survey. In the 12 months to February, employment increased by 369,000 jobs or 2.0%, reflecting an increase of 266,000 in full-time jobs and 103,000 in part-time work. Over the same period, total hours worked were virtually unchanged. Ontario was the only province with significant job gains in February.

Consumer Confidence Drops to 54.12

Consumer Confidence in Canada decreased to 54.12 in February from 54.17 in January of 2019. Consumer Confidence has fallen for three consecutive months. Consumer Confidence in Canada averaged 53.44 from 2010 until 2019, reaching an all-time high of 57.05 in November 2018 and a record low of 46.80 in February 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 1.4%

The Consumer Price Index (CPI) rose 1.4% in January after rising 2.0% in December, according to Statistics Canada. The rise was in line with market expectations. Gasoline prices dropped sharply in January, plunging 14.2%. Excluding gasoline, the CPI was up 2.1% year over year. Core inflation held firm at 1.9%. Services prices increased 2.7% in January after rising 3.5% in December. The data is unlikely to cause the Bank of Canada to consider raising rates from their current level of 1.75%. The BOC expects the consumer price index to be below 2% for much of 2019, primarily due to lower gas prices. Prices increased in seven of eight major components, with the transportation sector showing the only decline. On a seasonally adjusted monthly basis, the CPI declined 0.1% in January, following a 0.2% increase in December.

GDP Rises 0.4%

Canada's GDP rose 0.4% in the fourth quarter to $2.068 trillion, its worst performance in more than two years, according to Statistics Canada. The increase was well below expectations for 1.0% growth. GDP was up 1.8% for all of 2018, down markedly from 3.0% growth in 2017. Housing investment fell 3.9% as the market continued to soften, with the largest decrease in new construction (-5.5%), followed by renovations (-2.7%) and ownership transfer costs (-2.6%). Business investment fell 2.7% for the quarter on a nonannualized basis, as investment in nonresidential buildings, engineering structures, machinery and equipment declined. Exports and imports both fell as well. Monthly GDP fell 0.1% in December on widespread weakness in goods-producing industries. It was the third monthly decline in four months.

Housing and Construction News

After recent declines, the national trend in housing starts held steady in January and remained above the historical average. A drop in single-detached starts was offset by an uptick in multi-unit dwellings in urban centres. The trend in housing starts was 208,131 units in January 2019, compared to 207,171 units in December 2018, according to Canada Mortgage and Housing Corporation (CMHC). This trend measure is a six-month moving average of the monthly seasonally adjusted annual rates (SAAR) of housing starts. The standalone monthly SAAR of housing starts for all areas in Canada was 207,968 units in January, down from 213,630 units in December. The SAAR of urban starts decreased by 2.1% in January to 190,912 units. Multiple urban starts increased by 0.7% to 146,353 units in January while single-detached urban starts decreased by 10.4% to 44,559 units. Rural starts were estimated at a seasonally adjusted annual rate of 17,056 units.

Home sales rose 3.6% in January after falling 2.5% in December, the strongest monthly gain since June 2018, according to the Canadian Real Estate Association (CREA). Sales were higher in half of local markets, led by Montreal (+7.1%), Ottawa (+21.7%) and Winnipeg (+15.4%). In contrast to sales, the average home price fell 2.9% month-on-month in January and has now dropped in four of the past five months. Prices were sharply lower in B.C. (-3.0%), Saskatchewan (-2.8%) and New Brunswick (-4.0%) in January.

Retail Sales Drop 0.1%

Retail sales edged down 0.1% to $50.4 billion in December. Excluding gasoline stations, retail sales increased 0.4%. After removing the effects of price changes, retail sales in volume terms increased 0.2%. Retail sales declined 0.5% in the fourth quarter of 2018, following a 0.7% increase in the third quarter. In volume terms, retail sales were relatively unchanged in the fourth quarter. Retail sales rose 2.7% to $605 billion in 2018. Building materials and garden equipment and supplies dealers (+3.1%) reported their first increase in six months. Sales were down in Ontario, metro Toronto and Quebec. Sales were up in Nova Scotia and Manitoba. On an unadjusted basis, retail e-commerce sales were $2.0 billion in December, accounting for 3.7% of total retail trade. On a year-over-year basis, retail ecommerce increased 4.6% in December, while total unadjusted retail sales decreased 0.4%.

Canadian store retailers generated sales of $605 billion in 2018, up 2.7% from 2017. The increase was largely attributable to higher prices, as sales in volume terms were up 0.7%. Provincially, retail sales were up in eight provinces, with Ontario (+3.9%) leading the way. Following declines in 2015 and 2016, retail sales in Alberta (+1.7%) rose for the second year in a row. Retail ecommerce, including sales from both store and non-store retailers, rose 14.7% to $18.0 billion in 2018. Retail ecommerce represented 2.9% of total retail sales, compared with 2.6% in 2017. During the November and December holiday shopping season, retail ecommerce accounted for 3.9% of total retail sales, up from 3.5% in 2017, in part due to strong retail ecommerce sales in November 2018. Approximately one-quarter of retail ecommerce sales took place during the 2018 holiday shopping season. In Canada, retail sales account for about half of all consumer spending and are considered a proxy for overall consumer spending.

Retail Notes

Canadian Tire's Q4 revenue rose 5.5% to $4.1 billion and full-year revenue rose 5.9% to $14.1 billion. Excluding petroleum, Q4 revenue was up 6.5% and full-year revenue was up 5.1%. Consolidated comp sales rose 0.8% in Q4 and were up 2.2% for the full year.

Retail segment revenue increased 5.3% to $192.4 million. Excluding Petroleum, retail segment revenue increased 6.4%. Canadian Tire Retail saw retail sales increase 0.6% and comparable sales were up 0.2%. Retail and comparable sales at SportChek were up 1.9% and 2.5% respectively.

Canadian Tire CFO Dean McCann will be retiring at the end of 2019. McCann was named CFO of the year in 2015.

Lowe's reported that Canada posted negative comp sales for the fourth quarter as a weaker Canadian Halloween market combined with the ongoing integration of Rona pressured the business. They anticipate weakness in the Canadian housing market, which is pressuring their outlook for the business over the near term. They remain confident in the long-term potential of the Canadian business.

MARKET TRENDS

Skills Shortage in Construction

The skills shortage is getting worse, with 83% of HR professionals saying that they had difficulty recruiting suitable candidates in the past 12 months, according to new research from the Society for Human Resource Management (SHRM). There has also been a noticeable decline in the quality of candidates available overall, with one-third of managers citing a lack of needed technical skills.

Carpentry, plumbing, welding and machining are the technical abilities most lacking. While expanding advertising and outsourcing recruiting are among the most common tactics used by employers to address the problem, onsite training, starting or expanding training programs to help improve the skills of new hires, providing offsite training for employees and increasing compensation are viewed as the most effective.

Other more long-term remedies include collaborating with educational institutions and recruiting from nontraditional sources, including people with criminal backgrounds and military veterans. More than one-quarter of respondents said that their businesses are collaborating with schools to build a pipeline of job candidates, but most say that educational institutions have done very little to address the issue.

More than three-quarters of respondents said that foreign-born workers contribute positively to economic growth and help drive innovation, but one-third said they were challenged by an insufficient number of employment-based visas, and also said that the employment-based immigration process was lengthy and complex with unpredictable results. HR professionals also called for removing roadblocks to ensuring a legal workforce, with 81% supporting a national, entirely electronic system that accurately confirms identity for employment and combats identity theft.

What Homebuyers Want

The latest survey from NAHB ranked 175 features based on how essential they are to the home purchasing decision. The survey results were released at the International Builders' Show in Las Vegas in February.

The top ten features include laundry rooms, a variety of energy-saving features including Energy Star appliances, home storage, garage storage, walk-in pantries, hardwood flooring, a patio and exterior lighting.

Average home size continues to decline, dropping from a peak of 2,689 square feet in 2015 to 2,576 square feet in 2018, according to the US Census Bureau. Some of the decline is due to an increase in townhouse production, which comprised 14% of home starts in 2018. A location in the suburbs is desired by 64% of buyers, followed by a rural setting (24%) and central city (11%). Millennials are the most likely to want a central city location (23%) compared to Gen X (11%), baby boomers (8%) or seniors (3%).

As far as space design goes, 86% of buyers prefer the kitchen and dining room to be completely or partially open. Top finishes include stainless steel appliances (67%), granite or natural stone kitchen countertops (57%) and white kitchen cabinetry (32%). White on white and grey on white are new trends emerging for both kitchens and baths. Other rising trends include farmhouse styles with lots of wood; engineered quartz countertops, vinyl and resilient flooring for aging in place, wireless controls and higher-end fixtures in bathrooms.

Wells Fargo Housing 2019 Forecast

The housing market lost momentum in 2018, with affordability issues and rising mortgage rates depressing sales, and hawkish comments from the Fed sending many buyers to the sidelines. Weather and natural disasters added to the woes. Wells Fargo revised their forecast for GDP growth to 2.6% compared to their earlier forecast of 2.7%, and still expects the Fed to raise rates twice this year. But they expect the first increase to be delayed to June, with the second not coming until December. They believe current sentiment in the economy and housing market is too pessimistic because the economy's underlying fundamentals remain sound. The strength in job growth has corresponded to an increase in household formation, which is essential to improve demand for homes and apartments. Wells Fargo expects modest improvement in new and existing home sales this year, with moderating prices and the pullback in mortgage rates reviving demand. They expect new home sales to rise 1.6% and existing home sales to rise 0.6%, with most of the improvement in sales occurring at lower price points.

Digital Ad Spending Grows

2019 will be a milestone year for advertising, with digital ad spending in the US exceeding traditional ad spending for the first time, according to eMarketer's latest forecast. Total digital ad spend will grow 19% to $129.34 billion this year, representing 54.2% of estimated total ad spend. By 2023, digital will account for more than two-thirds of total media spending. The biggest player is Amazon, whose US ad business will grow more than 50% this year, pushing its share of the digital market to 8.8%. The biggest decline in traditional spending comes from directories, such as the Yellow Pages, followed by traditional print, where spending will drop nearly 18%.

Global Powers in Retailing

The 22nd edition of Deloitte's Global Powers of Retailing report analyzes how the 250 biggest retailers performed in 2017. Walmart is ranked number one globally, with a global revenue of US$500 billion, nearly four times the size of closest rival Costco. Amazon moved up from number 10 in 2016 to number four. The Home Deport moved up to number 9 and broke $100 billion in sales. Deloitte also presented the Fastest 50, a ranking of retailers who showed the greatest sales growth from 2012 to 2017. Amazon held the top spot, with US firm Wayfair also making the list.

Dynamic Pricing

Shoppers expect pricing consistency across all channels, but in actuality prices in store and online can vary, as pricing algorithms generate different prices based on factors that could include time of day, demand, location, competition and customer buying patterns. Amazon has blazed the trail, with algorithms that reportedly change prices millions of times per day depending on demand. Prices for items can change even after the customer has added them to the cart, as Amazon can lower prices to match any price offered by another retailer. Vendors who work with retail brands on pricing strategies, including Engage3, Profectus and Revtrax, say the industry's major players are experimenting with dynamic pricing to keep up with Amazon. Analysts caution that customers may revolt when they discover that the same item from the same retailer can be priced differently, causing what is termed decision paralysis. People do nothing, waiting to see if they'll be offered a better deal. There are also several states that have enacted laws prohibiting differential pricing. In addition, the brand may damage customer perception. Or as one analyst commented, "Being technologically feasible doesn't mean something is socially desirable. It works well if no one knows you're doing it. Once someone finds out, it creates a storm."

Online Sales Forecast

Amazon will continue to dominate the US ecommerce market, with their ecommerce business growing 20.4% this year to

$282.52 billion, or 47% of ecommerce sales and 5% of the total US retail market. Walmart's ecommerce sales are expected to grow nearly 33% this year to $27.81 billion, giving the world's largest retailer a 4.6% share of the US ecommerce market and a third-place ranking behind Amazon and eBay. The Home Depot is in fifth place, with 1.7% of online sales.

New Packaging Options Create Recycling Problems

Amazon has switched to lightweight plastic mailers from cardboard boxes for many items. However, waste experts note that the new plastic sacks are not recyclable in curbside bins, so suffer from the same problem as plastic bags. The huge holiday season created a massive "hangover" of packaging waste. Amazon was responsible for half of all online transaction in 2018 and is by far the biggest shipper and producer of waste. Target and many other online retailers have also switched to similar plastic mailers. Plastic mailers do take up less space on trucks, which means that it requires less energy to deliver them, but recycling issues and stricter laws in China, where much of America's recycling ends up, mean that the inclusion of plastic mailers in recycling bundles often means the whole bundle ends up in the landfill after all. Only 4% of the plastics from US households are recycled through collection programs at grocery and big-box stores; the other 96% ends up in landfills. In some countries, including Canada, companies pay fees based on how much waste their packaging and products contribute to the environment.

