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Bosch | Dremel

RotoZip | Vermont American

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US ECONOMY

Exchange Rates Feb 28, 2020

Euro	1 Euro = $1.100	$1.00 = 0.909 Euros
Canadian Dollar	1 CAD = $0.746	$1.00 = 1.341 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 108.095 Yen
Chinese Yuan	1 Yuan = $0.143	$1.00 = 6.991 Yuan
Mexican Peso	1 Peso = $0.051	$1.00 = 19.727 Pesos

Market Watch Feb 28, 2020

DOW	25,409	-10.1%
NASDAQ	8,567	-6.3%
S&P 500	2,954	-8.4%

After hitting all-time highs mid-month, markets caught a bad case of coronavirus jitters the last week of February, sliding more than 10% off their highs. The Fed stepped in late in the day, reassuring markets that the economy is sound and the central bank was ready to act if needed, sending indexes up in the last fifteen minutes and preventing even steeper losses. Economists note that the US economy is strong, but the impact of coronavirus virus on the US and global economy in light of the extraordinary precautions being put in place to keep the virus from spreading is unknown. The stock market hates uncertainty; markets will undoubtedly be choppy until the impact of coronavirus can be better projected. Historically, widespread global virus outbreaks have often caused temporary market turmoil but to date have not plunged economies into recession.

Consumer Spending Rises 0.2%

Consumer spending rose 0.2% in January after rising an upwardly revised 0.4% in December and 0.4% in November, below economists' expectations. It was the tenth consecutive monthly increase for consumer spending. Core consumer spending rose 0.1% in January after rising 0.1% in December. Personal income jumped 0.6% and savings rose to $1.33 trillion. Wells Fargo expects consumer spending to moderate but not decline in 2020. Consumer spending accounts for more than two-thirds of US economic activity.

Consumer Confidence Rises to 130.7

- The New York-based Conference Board's Consumer Confidence Index rose slightly to 130.7 in February after rising to a downwardly revised 130.4 in January.*
- The Present Situation Index, which is based on consumers' assessment of current business and labor market conditions, dropped to 165.1 in February after rising to a downwardly revised 173.9 in January.
- Consumers assessment of current conditions was slightly less favorable in February, but they were more optimistic about short-term prospects. Their outlook for the labor market was mixed. The Conference Board says there is little to indicate growth in 2020.

*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.

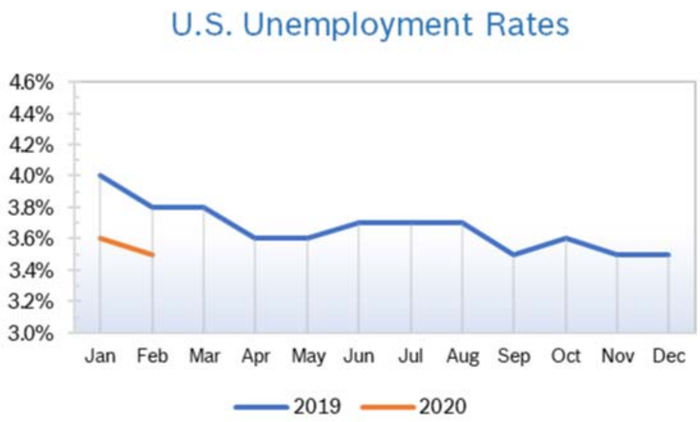
Consumer Prices Rise 0.1%

The Consumer Price Index (CPI) rose 0.1% in January after rising 0.2% in December. The year-over-year CPI increase rose to 2.5% in January from 2.3% in December. Even though the year-over-year increase was the fastest pace since October 2018, inflation remains very low. Excluding the volatile food and energy categories, core prices rose 0.2% in January after increasing 0.1% in December. Core prices were up 2.3% from a year ago for the second consecutive month. Energy prices dropped; most of the increase in headline inflation came from increases in services and shelter costs. The PCE price index increased 0.3% in January. The core PCE price index, the

BOSCH Invented for life

Fed's preferred measure of inflation, rose 0.1% for January and was up 1.6% from January 2019. The core PCE index has been below the Fed's target of 2% for more than a year.

Unemployment Falls to 3.5%



- The economy added 273,000 new jobs in February, well ahead of expectations. The unemployment rate fell back to a half-century low of 3.5% after rising to 3.6% in February.
- Job gains for December and January were revised upwards by nearly 80,000 to a total of 243,000 new jobs.
- Average hourly earnings rose 0.3% and have risen 3.1% over the past 12 months.
- Gains were widespread, with construction adding 42,000 new jobs thanks to continued mild weather in parts of the country.

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 Fall to Two-Year Low

The number of job openings fell to 6.4 million in December, the lowest level in two years, and hiring increased marginally, according to the most recent Job Openings and Labor Turnover Survey (JOLTS) from the U.S. Bureau of Labor Statistics. The drop of 364,000 jobs marked three consecutive months of declines. The drop in job openings was concentrated in the private sector. Analysts say that fewer openings may likely reflect employers being more willing to invest in training and workers in the tight job market. The job openings rate declined to a two-year low of 4.0% in December from 4.3% in November. Hiring rose to 5.9 million in December from 5.8 million in November and the hiring rate edged up to 3.9%. The number of workers voluntarily quitting their jobs fell to 3.5 million from 3.6 million in November, but the quits rate was unchanged at 2.3% for the fourth consecutive month. The quits rate is viewed by policymakers and economists as a measure of job market confidence. Layoffs increased to 1.9 million in December from 1.8 million in November; the layoffs rate was unchanged at 1.2%.

Chicago PMI Rises to 49.0

The Chicago Purchasing Managers Index (Chicago PMI), rose to 49.0 in February after tumbling to 42.9 in January. Four out of five major indicators posted gains, with only Employment declining. New Orders rose 7.6 points to 49.1, the highest level since August 2019. Production rose to 51.0, an eight-month high. Order Backlogs rose slightly after falling to a four-year low of 34.6 in January. This component of the Index has been in contraction since September 2019. Prices Paid fell for the second consecutive month, dropping 3.2 points to 52.9.

Wholesale Prices Rise 0.5%

The Producer Price Index (PPI) rose 0.5% in January after rising 0.1% in December and was up 2.1% year over year. The monthly increase was the largest since Fall 2018, but was primarily due to a spike in trade margins, a category described as being very erratic and having little bearing on what companies actually pay in the long run, as well as a jump in retail margins and an administered increase in Medicare hospital payments. The cost of goods was up just 0.1%. Core producer prices, which exclude food, energy and retail trade margins, rose 0.4% in January after being flat in December. Core PPI was up 1.5% year over year, unchanged from December.

Q4 GDP Growth Remains at 2.1%

Q4 GDP was unrevised at 2.1%, according to the second estimate from the Commerce Department. It was the third consecutive quarter GDP grew between 2% and 2.1%. Growth for 2019 was 2.3%, thanks to robust growth in the first quarter. There were only minor revisions to the data used to create the first estimate of Q4 growth. Fixed business investment, excluding housing, fell 2.3%, compared to initial estimates of a 1.5% decline, as companies spent less on equipment and oil and gas extraction. Prior to the outbreak of coronavirus, analysts were expecting that a partial trade truce with China would spur more business investment this year, but now China has shuttered many plants, interrupting the supply chains of many industries and putting a damper on any prospects for robust growth for the immediate future.

Fed Issues Emergency Rate Cut

The Fed cut rates by 50 basis points (0.5%) in early March in response to the risks from coronavirus. It was the biggest rate cut since the financial crisis in 2008, and the first reduction in interest rates since last year. The move took markets by surprise, as the Fed reiterated that the economic fundamentals of the US remain strong, but that a period of prolonged disruption could lead to a big drop in global GDP growth. It is unusual for the Fed to cut rates outside of its normal meeting schedule. Many analysts question whether the rate cut will achieve anything, as rate cuts are generally put in place to stimulate business investment and consumer spending, although it may encourage some investors to "buy the dip" and take advantage of bargains in the market.

US-Mexico-Canada Trade Deal

The independent U.S. International Trade Commission calculated that the U.S.-Mexico-Canada deal would add 0.35%, or $68 billion, to economic growth and generate 176,000 jobs over six years. According to the White House, the deal will greatly improve protection for workers and boost access to Canadian and Mexican markets for US farmers and ranchers. The deal will also reportedly give US manufacturing a boost.

HOUSING & CONSTRUCTION

Builder Confidence Falls to 74

Builder confidence dropped one point to 74 in February after dropping one point to 75 in January, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). The HMI index charting current sales conditions fell one point to 80, the index gauging sales expectations in the next six months fell one point to 79 and the index measuring traffic of prospective buyers dropped one point to 57. Despite the decline, the last three months mark the highest levels of builder confidence since December 2017. The three-month moving average for builder confidence rose in all regions except the West, where it fell one point.

Building Permits Rise 9.2%

Building permits rose 9.2% in January to a seasonally adjusted annual rate of 1.55 million units, the highest level since March 2007. **Single-family permits rose 6.4%** to 987,000 annual units after falling to 916,000 units in December. Multifamily permits rose 14.6% to 564,000 units after falling to 500,000 units in December. Permits rose in all regions on a year-to-date basis.

Housing Starts Fall 3.6%

Housing starts fell 3.6% in January to a seasonally adjusted annual rate of 1.57 million units and starts for December were adjusted upwards. **Single-family starts dropped 5.9%** to 1.01 million units after rising to 1.06 annual units in December. Multifamily starts rose 0.7% in January to 557,000 units after rising to 553,000 units in December. Regional housing starts were mixed. Even though January starts fell, the pace was the second-strongest since the housing recovery began.

New-Home Sales Rise 7.9%

New-home sales rose 7.9% in January to a seasonally adjusted annual rate of 764,000 new homes after sales for December were revised upwards. Sales were up 18.6% from January 2019 and at the highest monthly pace since July 2007. The inventory of new homes for sale fell to a 5.1-months' supply at the current sales pace from 5.7 months in December. Supplies were down 6.6% from January 2019. The median sales price rose to $348,200 in January from $331,400 in December and $305,400 in January 2019. Regional new home sales year to date 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 1.3%

Existing home sales fell 1.3% in January to a seasonally adjusted annual rate of 5.46 million homes after rising to 5.4 million homes in December. Existing home sales were up 9.6% from January 2019. The median home price rose 6.8% from January 2019 to $266,300, marking 95 consecutive months of year-over-year gains. Total housing inventory at the end of January rose 2.2% from December to 1.42 million units but was down 10.7% from January 2019. Unsold inventory was at a 3.1-months' supply at the current sales pace, up from 3.0 months in December but down from 3.8 months in January 2019. Regional existing homes sales year over year were up in all regions; regional sales compared to December 2019 were mixed.

Regional Housing Data YTD

	Northeast	South	Midwest	West
Builder Confidence	63 (+1)	78 (+2)	67 (+1)	83 (-1)
Building Permits	+36.4%	+8.0%	+8.2%	+3.1%
Housing Starts	+31.9%	-5.4%	-25.9%	+1.2%
New Home Sales	+4.8%	-4.4%	+30.3%	+23.5%
Existing Home Sales	Flat	+0.4%	+2.4%	-9.4%

Mortgage Rates Fall to 3.45%

- A 30-year fixed-rate mortgage (FRM) fell to 3.45% at the end of February after falling to 3.51% at the end of January. Mortgage rates were 4.35% at the end of February 2019.
- Freddie Mac expects rates to average 3.8% in 2020.
- Yields for 10-year Treasury Bonds, which determine mortgage rates, have been very volatile.

POWER TOOL INDUSTRY

Robert Bosch

Bosch Connected Mobility Solutions has formed an agreement with China's innovative mobility technology company, Human Horizons, to cooperate on new technology, described as Battery in the Cloud. Human Horizons noted that Bosch is a leading supplier of automotive and smart transportation products and services and experienced in preventative safeguards based on Internet of Things (IoT) and big data solutions. While this particular agreement is focused on extending car battery life, it could have implications for other types of batteries.

Bosch has established ethical "red lines" for the use of artificial intelligence (AI) and issued company guidelines for the use of AI in Bosch products. Bosch stated that people should be able to trust Bosch's AI-based products. Bosch wants to have all products either contain AI or have been developed or manufactured with the support of AI applications by 2025.

Stanley Black & Decker

SB&D will be the anchor client for a Global Delivery Center that HCL Technologies is opening in Hartford, Connecticut. The center will offer digital transformation services to clients in the smart manufacturing, insurance, aerospace and defense industries. HCL will help transform SB&D's global application and infrastructure environments to enhance the company's agility and ability to respond to emerging business needs, according to both companies. As part of the deal, HCL will deploy 1,000 people globally for SB&D. HCL has a deep history in Connecticut and operates in 45 countries with consolidated revenues of $9.7 billion.

TTI/Techtronic Industries

Milwaukee Tool corrected a media report claiming that they were considering moving production for some power tools products to Cookeville, Wisconsin. Milwaukee says they are considering manufacturing a vacuum line in Cookeville at what they described as an existing sister company location. They are not planning on building a new power tool plant there.

Milwaukee Tool is suing Shaf International, the company

that makes Milwaukee Leather and Milwaukee Performance products, accusing it of misleading customers and tarnishing the reputation of Milwaukee Tool's logo and brand equity. Shaf International sells products under the Milwaukee Leather and Milwaukee Performance brands. Milwaukee says the products are confusingly similar to their heated apparel and tool bags, and that customers believe they are buying Milwaukee Tool products. Milwaukee already opposed Shaf's trademark application for the Milwaukee Performance brand and sent the company several cease and desist letters before filing suit.

TTI received approval to set up a parts factory in Vietnam. The project, reportedly worth $650 million, will also include R&D activities in electronics. According to plans filed in Saigon, TTI expects to make deals with between 80 and 150 local suppliers who reportedly expect to make $1 billion US annually from the project. TTI Vice Chairman Stephan Pudwill said that the park is ideally situated. Vietnam has seen a strong influx of foreign investment as companies try to move manufacturing out of China.

RETAIL

Retail Sales Rise 0.3%

Retail sales rose 0.3% in January after rising a downwardly revised 0.2% in December and were up 4.4% (unadjusted) from January 2019. Sales at building material and garden supply stores were up 2.1% in January but down 1.4% year over year. Sales at general merchandise stores, a category which includes big retail chains such as Walmart, rose 0.5% in January after rising 0.4% in December. Sales at nonstore retailers, a category that includes online and catalog sales, rose 0.3% in January after dropping 0.1% in December. Control group retail sales, which exclude automobiles, gasoline and sales at building and supply stores and factor into calculations for GDP, were essentially flat in January and gains for December were revised down to 0.2%.

Retail Sales Forecast

US retail sales are expected to rise between 3.5% and 4.1% to more than $3.9 trillion in 2020 despite fears surrounding the coronavirus and an ongoing trade war, according to the National Retail Federation (NRF). Preliminary results show that retail sales grew 3.7% in 2019 to $3.79 trillion, short of forecasts for 3.8% growth. The NRF expects the economy to gain between 150,000 and 170,000 jobs per month in 2020, down from 175,000 in 2019, and unemployment, currently at 3.6%, to drop to 3.5% by the end of the year. NRF expects online sales, which are included in the overall sales number, to grow between 12% and 15%.

The Home Depot

Q4 sales fell 2.7% to $25.78 billion, in line with analysts' expectations. **Comp sales rose 5.2%**, well ahead of expectations. Comp traffic grew about 1%. THD had missed comp store expectations for the previous four quarters. There was one less week in the fourth quarter compared to the previous year. Based on that, the number of customer transactions fell 6.4%. However, average transactions rose 4.1% and sales per retail square foot rose 2.8%.

THD expects comp sales to grow about 3.5% to 4% this year, based on guidance that the US economy will grow slightly less than 2% this year.
Q4 Conference Call with Analysts:

CEO Craig Menear said that 2019 was a record year, and they achieved the highest sales in company history. Excluding the extra week in 2018**, fiscal 2019 sales grew 3.5%** to $110.2 billion.

The enhanced signage and store refresh package and other investments in the front-end of stores have made associates more productive and improved the customer experience.

They are blending physical and digital platforms into a more seamless interconnected experience; for example, they did a chainwide rollout of digital appliance labels connecting ratings from the digital world to the physical world, enhancing the shopping experience.

The website continues to be an engine for growth for the business, driving increased traffic and additional visits to stores. Therefore they are continuing to invest in search functionality, category presentations, product content and also to enhance fulfillment options to make shopping easier.

They are also investing in the online experience tailored specifically for Pros; they now have more than one million registered Pro customers.

Excluding the extra week in 2018, online sales grew 20.8% in the fourth quarter and 21.4% for the full year. Customers chose to pick up their orders in store more than half of the time.

They have opened a dozen Market Delivery Operations (MDOs) that have enabled them to move 20% of client deliveries from an outsourced model to one more under their control. They plan to continue to ramp up the supply chain, with the largest number of facilities coming online in 2021 and 2022.

For the fiscal year, all merchandising departments posted positive comps. Non-seasonal décor and storage and tools posted comps above the company average of 5.2%.

Q4 big ticket sales (sales more than $1,000, which represent 20% of US sales) grew in the double digits, driven in part by the shift in their event timing as well as strong performance in a number of other big ticket categories like appliances, vinyl plank flooring and installation services.
Consumer demand is strong; smartphone power tools, hand tools and decorative holiday were among very strong Black Friday performers.

They have seen that when a customer adopts a battery platform that works with multiple tools, they see great value in sticking with that platform. They currently offer more than 1,000 cordless power tools, and that number will continue to grow as their supplier partners are constantly introducing innovative products.

Pro sales were healthy, driven by strength in categories like pneumatics, concrete, hand tools and COGS, all of which grew faster than company average.

They are building an entire "ecosystem" for their Pro customers, one that encompasses product, brands, delivery, credit services, digital capabilities and a dedicated B2B website and much more.

Merchandise inventories grew by $606 million to $14.5 billion and turns dropped slightly to 4.9.

Their new positioning campaign, "How Doers Get More Done," is now debuting in advertising and promotions, and they already see customers responding positively.

They are closely monitoring the coronavirus situation. All of their Q1 merchandise is already in the US or on the way but the Q2 picture is still developing. Teams are working with all of their factories and suppliers, both domestic and import, as well a logistics service providers. It's a fluid situation. They are putting plans in place to mitigate any possible impact going forward. THD sources about 30% of their products from China.

They are actively working to get refunds on tariffs that were paid on categories that were excluded, like luxury vinyl plank flooring.

Other News:

THD will hire 80,000 part-time associates for their 1,988 US stores in preparation for the busy spring selling season.

Lowe's

Q4 sales rose to $16 billion from $15.6 billion in Q4 2018. **Comp sales increased 2.5% overall and 2.6% in the US,** below expectations of a 3.6% increase. CEO Marvin Ellison said sales growth was driven almost entirely by their US brick and mortar stores.

Q4 Conference Call with Analysts:

Lowe's is one year into a multiyear plan to transform the company and has a detailed roadmap in place to modernize their ecommerce platform and grow online sales.

Lowe's had total sales of $72 million in fiscal 2019 and projects sales growth of 2.5% to 3% and comp sales growth between 3% and 3.5% for fiscal 2020.

Q4 sales were softer than they expected. CEO Marvin Ellison attributed the disappointing results to three things. First, they failed to optimize their marketing execution so that it aligned with the shortened holiday season. They should have started promotions earlier in November. Second, they were lapping the exit of the Project Specialist Interior (PS-1) program in the fourth quarter, which pressured installed sales growth more than they anticipated. Third, their website is still very much under construction, and online sales lagged market growth, delivering about 3% comp growth for the quarter. Lowe's will be migrating the website to Google Cloud during the second quarter to improve performance and expand the brands and products available.

One of the key strategic steps to improving lowes.com is transforming the supply chain. Therefore they will be investing $1.7 billion in the supply chain over a five-year period. They opened three new bulk distribution centers and four new cross-dock terminals in 2019.

Getting the website more functional is key to growing both their online business and their instore business; so many transactions begin online, even when they end up in the store. When the website is not as functional as it should be, it hurts business overall.

Their focus on Pro continues to be a catalyst for US sales growth, with Pro comps outpacing DIY in the fourth quarter. Both Pro customer service scores and Pro sales improved in the quarter.

In 2019 their Pro strategy was focused on improving the retail fundamentals Pros need, such as job lot quantities, better service, dedicated loaders, pro supervisors and consistent volume pricing.

In the first half of this year they will launch their Pro loyalty program nationally, integrated with a program that allows them to strategically market to Pros. In tests Pro customers were very enthusiastic about the benefits of the loyalty program, which include personalized offers, the ability to track spending and business management tools.

All three US divisions and 14 of 15 regions generated positive comps during the fourth quarter. The West was their top performing geographic region.

Several departments delivered above average comps, including tools, lawn and garden and lumber and building materials. Décor has been a very strong performer for the company.

In tools they are still seeing strong customer response to Craftsman. They are also gaining traction within key programs with their exclusive DeWalt 12-volt compact line of power tools.

They announced an extension to the DeWalt power tool program, with the launch of a new 20-volt MAX XR power tools aimed at giving Pros better performance. They are also leveraging new and innovative products from Bosch, Lufkin, Spider, Metabo HPT and Cobalt.

They plan to add approximately 7,000 vendor funded MSTs to the stores in the first half of 2020. Their merchandising service teams (MSTs) have improved their merchandising reset executions and day-to-day bay and end cap maintenance at store level, delivering a better shopping experience for customers and taking time consuming tasks off the shoulders of associates.

In the first half of the year they'll complete the rollout of their new signage and way finding package, the first one in fifteen years. In pilot stores customer surveys showed that the new package improved the customer experience and made it easier and faster for customers to locate products.

They are excited to be introducing Honda Outdoor Power Products, including walk-behind lawn mowers, generators, snow blowers, tillers, pumps and trimmers for both residential and commercial.

They completed the national rollout of their new customer-centric scheduling system in the third quarter, and they've been able to align payroll hours to peak customer traffic hours.

In the first half of 2020 they will deploy a centralized return to vendor process, which will limit product damage and free up additional space in stores. They're also rolling out their new point of sales system.

They are planning on capital expenditures of approximately $1.6 billion in 2020 and they continue to look for investment areas to enhance the business over the long term.

Walmart

Q4 revenue rose 2.1% to $141.67, well below estimates. **Comp sales in the US rose 1.9% e**xcluding fuel, well below analysts' average estimate of 2.3% growth. Walmart said they experienced softness in a few general merchandise categories in US stores in the few weeks before Christmas, and were also hurt by the shorter holiday season.

WM has been spending heavily to grow their online business and build up the digital capabilities of their stores, including promoting services like buy online and pick up in store parking lots. WM expects online sales growth to fall to about 30% this fiscal from last year's growth of 37%. Online sales rose 35% during the fourth quarter, the slowest increase in two year.

Walmart is creating their own paid membership program to compete with Amazon Prime. The new service is called Walmart+. Walmart confirmed the story, but did not provide any further details; news of the program was leaked by news website Vox. According to their report, Walmart will begin publicly testing the program next month. Reportedly benefits include some that Amazon could not match, such as discounts on prescription drugs at Walmart pharmacies and on fuel at Walmart gas stations. Last year Walmart debuted a subscription delivery option called Delivery Unlimited that cost $98 annually or $12.95 per month. Amazon Prime is $119 a year.

Mark Ibbotson, Walmart's head of central operations and realty, Is leaving the company. Some of the operations that reported to him will now report to newly named Walmart US CO, Dacona Smith. Other pivotal operations work, including building shopper and worker-facing technology and further rolling out online grocery pickup and delivery, will move to Janey Whiteside, recently hired as Walmart's first chief customer officer. Whiteside and her team have been given more responsibility for luring shoppers away from Amazon.

Ace Hardware

Q4 revenues rose 6.1% to $1.5 billion. Total wholesale revenues for the quarter rose 4% to $1.3 billion and retail revenues rose 30.8% to $142.2 million. **Full-year revenues rose 6.2%** to $6.1 billion. Ace added 168 new domestic stores in fiscal 2019 and canceled 88 stores, bringing the company's total domestic store count to 4,556, an increase of 80 stores from the end of fiscal 2018. Both Ace Wholesale Holdings and Ace Ecommerce Holdings (The Grommet) struggled to achieve their revenue targets and posted large losses.

Ace Hardware is opening up their first store in Manhattan. Construction on a new 15,000-square foot building began in late February. The store is expected to open in late September or early October. The owner, Steve Bachmeier, owns another Ace Hardware in Belgrade. The Manhattan one will be smaller, and will fill a void created when Hardware Hank closed up shop several years ago.

True Value

True Value's 2020 Spring Reunion in New Orleans had a simple theme: "Thrive." Thousands of home improvement retailers gathered to see new products, take advantage of hot deals, attend educational sessions, learn about marketing opportunities and network with industry peers. Making a comeback in New Orleans was True Value's Buy with Confidence Guarantee, which means the price retailers see is the price they will get, regardless of tariffs and commodities prices.

Amazon

Amazon opened their largest cashierless store to date in Seattle. At 8,000 square feet and about 5,000 items it's about four times the size of the Amazon Go stores that debuted two years ago. The store reportedly relies on many of the same suppliers that serve Whole Foods. There are bagging stations throughout the store, giving customers a chance to rearrange their items as they browse. Customers use the Amazon Go app on their mobile device. Customers are tracked by cameras above and sensors on the shelves; if a customer changes their mind and puts an item back, it disappears automatically from their running tally. When they are done shopping, they simply leave, no need to go through a checkout station.

Goldman Sachs is reportedly considering a small-business lending deal with Amazon, according to an item in the *Financial Times*. Both Goldman and Amazon declined to comment on the report. Goldman Sachs is in the process of transforming itself from an investment bank to a consumer-oriented, universal bank.

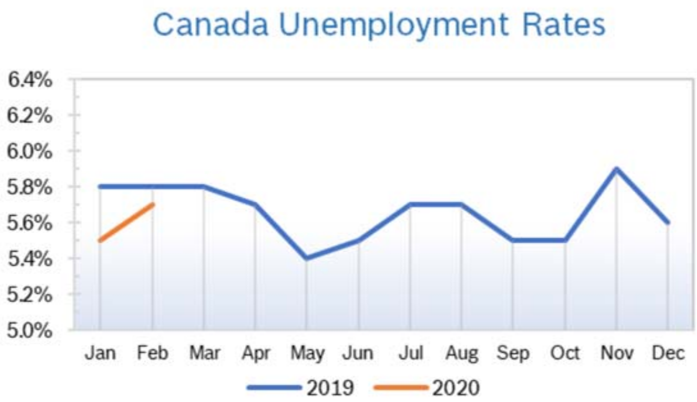
A judge granted Amazon's request to temporarily halt the US Department of Defense and Microsoft from moving forward on an cloud computing deal worth around $10 billion. Amazon says the deal reflected undue influence by President Donald Trump. Trump has publicly derided Amazon CEO Jeff Bezos and repeatedly criticized the company. Bezos also owns the *Washington Post,* which has been critical of Trump. Amazon was considered the front-runner for the contract.

Amazon plans to open ten more Amazon 4-star stores in 2020. The 4-star concept debuted in fall 2018. To date Amazon has opened nine locations that carry items from some of the most popular categories on Amazon. Everything in the store is rated four stars and above, is a top seller or is new and trending on Amazon.com.

Amazon CEO Jeff Bezos launched the Bezos Earth Fund, donating $10 billion of his own money to combat climate change. Bezos said he will start issuing grants this summer, and that the new global initiative will make charitable donations funding scientists, NGOs and any efforts that offer real possibilities to help preserve and protect the natural world. He described climate change as the biggest threat to the planet. Bezos is the world's richest man; his $10 billion investment represents about 10% of his net worth.

CANADA SNAPSHOT

Unemployment Rises to 5.6%



- Canada's unemployment rate rose to 5.6% in February after falling to 5.5% in January and the economy added 30,000 new jobs.
- Since February 2019 the economy has added 245,000 new jobs, an increase of 1.3%. Most job gains have been in full-time employment.
- Employment in February rose in Quebec, Alberta, Nova Scotia and Manitoba. Employment was little changed in other provinces.
- The retail sector added jobs in February.

Consumer Confidence Rises to 120.6

The Index of Consumer Confidence rose 6.5 points to 120.6 in February, the highest level since 12 points in January to 114.0, the highest level since July 2019, according to the Conference Board of Canada. The monthly Index of Consumer Confidence is constructed from responses to four attitudinal questions posed to a random sample of Canadian households.

Consumer Prices Rise 2.4%

The Consumer Price Index (CPI) rose 2.4% in January after rising 2.2% year over year in December, according to Statistics Canada. Excluding gasoline, the index was up 2.0% year over year, down slightly from December's core index. On a seasonally adjusted annual basis the index rose 0.3% in January after rising 0.4% in December.

Q4 GDP Rises 0.3%

GDP rose at a tepid 0.3% during the fourth quarter, according to Statistics Canada. For the full year, GDP rose 1.6%, a slowdown from 2% growth in 2018. The weak quarter was expected, as there were a number of temporary disruptions, including the Canadian National Railway strike, poor weather in parts of the country and pipeline shutdowns. GDP began to recover in December, with the economy growing 0.3% for the month. Analysts are uncertain what impact the growing threat from coronavirus will have on the Canadian economy. For the quarter, consumer spending grew at an annualized 2%.

Construction edged up 0.2% with increases in a majority of subsectors. Residential construction expanded 0.9% as increases in multi-unit dwellings and home alternations and improvements fully offset lower single-family home construction. Nonresidential construction increased 0.6%, up for a fourth consecutive month, as all types of nonresidential construction rose. Repair construction was up 0.6%, while engineering and other construction contracted 0.9%.

Retail sales edged up 0.2% in December as activity in 9 of 12 subsectors increased. Leading the growth were building material and garden equipment and supplies (+2.5%) with a second consecutive monthly increase. Sales were up 0.4% year over year.

Bank of America Trims Canada Outlook

Bank of America is cutting its forecast for economic growth in Canada this year, and now expects GDP growth between 1% and 1.5% for the year. They kept 2021 growth unchanged at 1.8%. Most of the downward revision is due to lower oil prices and lower demand from China due to coronavirus, but some is also due to rail disruptions in the first quarter.

Bank of Canada Cuts Interest Rates

The Bank of Canada (BoC) followed the Fed's lead and slashed its benchmark interest rate to 1.25% from 1.75% in early March in the face of the rapidly spreading coronavirus outbreak. The BoC said it was prepared to cut rates again if needed to support economic growth.

Housing and Construction News

Housing starts rose 8.8% in January to a seasonally adjusted annual rate of 213,224 units. Gains were concentrated in multi-family buildings such as apartment and condos, which saw a 13.2% increase in starts. **Single-family detached home starts fell 2.1%** to 55,100 units. Overall starts were above expectations. Both regional economic strength and milder than normal winter weather in Central Canada likely boosted construction in Ontario and Quebec, while inclement weather dragged down activity in British Columbia, according to Canada Mortgage and Housing Corp (CMHC).

Canada's home sales rose 11.5% in January to the highest level in 12 years, according to the Canadian Real Estate Association (CREA). Seasonally adjusted sales fell to 2.9% from December 2019, due primarily to an 18% drop in sales in the Lower Mainland of British Columbia. The actual average price for homes sold in January was up 11.2% from January 2019 to $504,350. Removing the pricey areas of Greater Vancouver and Greater Toronto, the national average price was around $395,000.

Mortgage rates fell amid a sharp drop in bond yields, with 5-year rates dropping to 4.99% from 5.34% and special rates, which are actually closer to what most buyers pay, fell to 3.09% from 3.2%. There is a lot of pressure on banks to cut rates based on current market conditions and sluggish growth prospects.

Retail Sales Steady

Retail sales were virtually unchanged at $51.6 billion in December, after growing 1.1% in November. A 3.8% increase in sales at building material and garden equipment and supplies dealers and food and beverage stores were more than offset by lower sales at motor vehicle and parts dealers and gasoline stations. Sales were up in 7 of 11 subsectors, representing 49% of retail trade. Retail sales in volume terms were unchanged. Retail sales decreased 0.2% in the fourth quarter and 0.3% in the third quarter. Sales totaled $615 billion in 2019, up 1.6% from 2018. On an unadjusted basis, retail ecommerce sales were $2.6 billion in December, accounting for 4.7% of total retail trade, the largest share on record. On a year-over-year basis, retail ecommerce increased 31.5%, while total unadjusted retail sales rose 2.7%.

Retail Notes

Canadian Tire's fiscal 2019 sales rose 3.4% to $14.5 billion and comp sales rose 3.8% at Canadian Tire, 3.3% at Sport Chek and 2.5% at Mark's. Q4 revenue rose 4.5% and comp sales grew 4.8% at Canadian Tire stores. Traffic was up substantially as were high ticket sales.

Canadian Tire will roll out lockers in hundreds of stores so customers can pick up online orders. They tested the program in 2019. Canadian Tire had more than $500 million in ecommerce revenue for 2019, with ship to home orders doubling in the last three months of the year compared to 2018. In-store pick up is the fastest option for the customer and the cheapest option for the store.

Canadian Tire's CEO says the company has not yet experienced any supply side issues due to the coronavirus outbreak, but the long-term impact remains unclear. Canadian Tire does not have any active vendors in the quarantined area. The CEO also noted that Canadian Tire is well-stocked for a number of months, has done business in China for decades and has strong relationships.

Lowe's comp sales in Canada were slightly negative in local currency. They are making fundamental changes to improve execution and delivery long term improved profitability in Canada. They remain confident in the long term potential for their Canadian business.

They've implemented key leadership changes in Canada, and during the fourth quarter appointed Chris West as SVP Merchandising. West is a native of Montreal. He'll report to new president Anthony Hurs.

During the fourth quarter they completed 28 store closures, with the remaining six completed in early February.

THD Canada plans to hire more than 5,500 new associates across Canada to support the busy spring home improvement season.

MARKET TRENDS

The Impact of Coronavirus

As of the end of February, there were a total of about 85,000 confirmed cases of COVID-19, and about 3,000 confirmed deaths. For perspective, in the US alone there have been more than 32 million cases of flu reported this flu season, which so far have resulted in 300,000 people being hospitalized and 18,000 deaths. The reason there has been such widespread panic over coronavirus is that there is no vaccine, and thus far no effective way to halt its march around the globe. Restrictions on travel and public assembly have caused many companies to cancel events. Japan closed their entire school system for a month. Many factories in China remain shuttered, disrupting the global supply chain and impacting many businesses.

Many building materials are sourced from China. According to the NAHB, the US imported $66.7 billion in residential construction goods during 2017, with about $21.4 billion coming from China, including kitchen cabinets, vinyl floor coverings and lighting fixtures. Restrictions in China are already impacting airlines, tech companies, automakers and the tourist industry among others. There was some speculation that consumers could shift discretionary spending from foreign travel to home improvement under the cloud of the coronavirus.

Coronavirus is expected to curb global economic growth by 0.2% to 0.3% in 2020 as the severity of the infections surpasses the SARS outbreak in 2002 and 2003. Coronavirus will undoubtedly have a substantial effect on China's GDP growth; the Chinese economy now accounts for about 17% of global GDP. White House economists still see only a 0.2% reduction in first quarter growth but JPMorgan has slashed their Q1 GDP forecast by 0.25%, Goldman Sachs trimmed theirs by 0.40% and Moody's downgraded their outlook by 0.45%.

New Home Buyers 2020

Markets in the South and West will see the highest housing activity in 2020, as more millennials move out of big cities in search of more affordable markets, according to a panel of industry experts at the International Builders Show in Las Vegas. Markets such as Austin, Nashville, Charlotte and Tampa are all seeing stronger net migration from the Northeast and West. The median resale price in the South in January was 14% below the national average, 26% below the Northeast and a whopping 42% below the West.

One in four millennials has been looking for a home for more than a year. 16% of millennials are looking in urban areas, 34% are looking in the suburbs and 45% are looking for a home in a small town or rural area. Only 5% of millennials want to rent, but they are dealing with affordability issues and supply constraints. In 69% of metros with a population of 500,000 or more, renting is more affordable than buying. That jumps to 84% of metros with a population of 1 million or more.

Analysts point out that many rentals today offer a lot of high-quality features and amenities, and renters who are used to granite countertops and other luxury touches often experience sticker-shock when they see how much they have to spend to get the same features in a home of their own.

Baby boomers are currently staying put, choosing to invest in their current home rather than move. Only 17% are dissatisfied with their current home. Other factors that keep boomers rooted are the fact that 23% have no retirement savings and 30% of those between 62 and 66 have postponed retirement.

Top Home Design Trends

Walk-in master bedroom closets, low-emission windows and laundry rooms are the most wanted features in typical new homes in 2020, according to an NAHB survey of single-family home builders. Energy efficient features such as efficient lighting, programmable thermostats and Energy Star appliances are also likely to be included, as are open design concepts such as great rooms and first floor ceilings of nine feet or higher.

Consumers want smaller homes, not only in overall square footage, but in the number of features such as bedrooms and bathrooms. The majority of both first-time buyers and repeat buyers would rather have a smaller home with high-quality products and services than a bigger home with fewer amenities. The top features desired by both groups include laundry rooms, Energy Star windows, hardwood flooring, walk-in pantries, patios, ceiling fans and a double-sink in the kitchen.

Foundations Support Trade Training

The Home Depot Foundation and the Home Builders Institute (HBI) are teaming up to provide $500,000 to fund student training in home construction careers in high schools across the country. Additionally, the National Housing Endowment (NHE), the philanthropic arm of NAHB, has pledged $200,000 in support. The combined $700,000 will provide training in construction trades skills for thousands of students. HBI will be able to provide hands-on curriculum along with instructor training and materials. Upon completion, students will earn a pre-apprenticeship certification endorsed by NAHB and recognized by the US Department of Labor. The programs will be available at no additional cost to students. Industry data show that there are an estimated 311,000 open jobs in residential construction, including carpentry, electrical and plumbing.

UPS Evaluates Delivery Options

UPS ordered 10,000 electric delivery trucks from UK-based Arrival Ltd and is testing Waymo self-driving vehicles to carry packages as part of the company's efforts to cut emissions and delivery costs. Last fall Amazon ordered 100,000 electric vans from Rivian, a Michigan startup partially funded by Amazon. Amazon's growing delivery network is pressuring UPS and rival FedEx. UPS plans to take ownership of all 10,000 electric vehicles by 2025; the first trucks should be on the streets in Paris, London and as yet undisclosed US cities in the second half of this year. Retailers are all exploring the most efficient and cost-effective ways to move goods the last mile from stores to customers' homes.

Retail Tech Incubators

Many retail tech incubators are folding, with Neiman Marcus, Nordstrom and Target all closing some of their incubator programs in the last few years. Lack of resources and support from senior management is cited as the biggest reason incubators fail. Some incubators have been very successful, including Walmart Labs, which has created a new crowdsourced delivery system that reduced costs by more than 50%. Walmart has been liberal with support for Walmart Labs, and considers the investment critical to the company's future success.

Mixed Feelings About Amazon

Two out of three customers would consider abandoning Amazon without free shipping, and one in four have negative feelings about Amazon's impact on retail overall and the environment, according to a new consumer survey conducted by Convey. However, a full 21% of shoppers who were negative about Amazon's impact on retail still reported buying at least 50% of all their good on Amazon; the same results were true for shoppers who were concerned about Amazon's impact on the environment. The survey of 2,000 US consumers showed that the key to Amazon's success is their industry-changing shipping options. Fast and free shipping was the number one reason people shopped at Amazon, selected by more than 80% of respondents, followed by a broad selection of merchandise (69%) and best pricing (49%). Consumers are more interested in shipping being free than in the speed of delivery, with more than half saying they would still use Amazon if it took 3 to 4 days for orders to arrive, as long as shipping was free. Package theft remains the biggest concern for Amazon shoppers, with 30% worried about theft and 14% concerned about what would happen if they needed to return an item.

NABE Economic Forecast

The majority of top professional economic forecasters are more optimistic about real GDP growth than they were just three months ago, according to the National Association for Business Economics (NABE) latest business conditions survey. About 67% of respondents expect inflation-adjusted GDP to increase by 1.1% to 2% over the next four quarters; 30% of respondents now expect growth between 2.1% and 3%, and 63% expect minimum impact from trade and tariffs. Roughly half of respondents reported that their firms raised wages and salaries in the past three months and 62% expect their firms to increase pay in the coming quarter.

National Debt Ballooning

The US will spend $1 trillion more than it collects in 2020 and deficits will reach or exceed that threshold every year for the foreseeable future, according to the Congressional Budget Office. Debt held by the public is projected to be 81% of GDP this year and will reach 98% by 2030, based on a combination of tax cuts and projected increases in spending, particularly on safety-net programs such as Medicare and Social Security. Budget deficits were larger after the 2008-2009 financial crisis but the difference now is that the gap between taxes and spending has remained high even as the economy has extended a record-long expansion.