

Market Briefing

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RETAIL

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Retail

MARKET TRENDS

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Economic Recovery

Safety in Nature

Droning On

Zoom Expands Reach

Why TikTok?

Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

Robert Bosch Tool Corporation

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

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US ECONOMY

Exchange Rates September 30, 2020

Euro	1 Euro = \$1.172	\$1.00 = 0.853 Euros
Canadian Dollar	1 CAD = \$0.751	\$1.00 = 1.332 CAD
Japanese Yen	1 Yen = \$0.009	\$1.00 = 105.586 Yen
Chinese Yuan	1 Yuan = \$0.147	\$1.00 = 6.791 Yuan
Mexican Peso	1 Peso = \$0.045	\$1.00 = 22.100 Pesos

Market Watch September 30, 2020

DOW	27,782	-2.3%
NASDAQ	11,168	-5.2%
S&P 500	3,363	-3.9%

Markets churned much of the month and all three indexes finished with their first monthly losses since March. Political and economic uncertainty weighed on sentiment, as did the prospect of a contentious presidential election that is unlikely to be decided election night due to the high percentage of mail-in ballots.

Consumer Spending Rises 1.0%

Consumer spending rose 1.0% in August after rising 1.9% in July. The drop in spending was in line with economists' expectations. Consumer incomes fell by 2.7% after a huge 14.8% drop in the category that covers government payments, including unemployment. The extra \$600 weekly benefit that many people relied on and which helped prop up spending expired at the end of July and thus far Congress has not been able to agree on a second stimulus package. Economists are concerned that without further support consumer spending will slow dramatically during the final quarter of the year. Consumer spending accounts for 70% of US economic activity.

Consumer Prices Rise 0.4%

The Consumer Price Index (CPI) rose 0.4% in August after rising 0.6% in both June and July and was up 1.3% year over year after being up 1.0% in July. Excluding the volatile food and energy components, core prices rose 0.4% in August after rising 0.6% in July and were up 1.7% year over year. The increases in

both overall and core CPI were once again above expectations. Increases were driven by a jump in gasoline prices and prices for used vehicles. Economists say the increase in used vehicle sales is being driven by people who want to avoid the need to rely on public transportation due to exposure to CV19.

Consumer Confidence Rises to 101.8

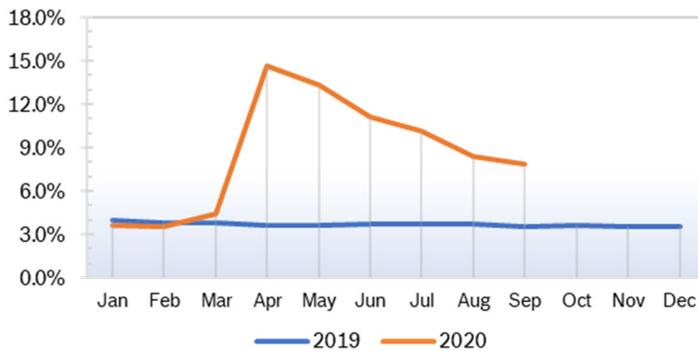


- ▶ The New York-based Conference Board's Consumer Confidence Index jumped 15 points to 101.8 in September after falling to an upwardly revised 86.3 in August.*
- ▶ The Present Situation Index, which is based on consumers' assessment of current business conditions, rose to 98.5 in September after dropping to 85.8 in August.
- ▶ Expectations rose sharply to 104.0 in September after dropping to an upwardly revised 86.6 in August.
- ▶ Consumers were generally more positive and optimistic in September, although confidence levels remained below pre-pandemic levels.

*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.

Unemployment Drops to 7.9%

U.S. Unemployment Rates



- ▶ The unemployment rate dropped to 7.9% in September after falling to 8.4% in August and the economy regained 661,000 jobs after adding back an upwardly revised 1.5 million jobs in August.*
- ▶ Private payrolls rose by 877,000 jobs, but government payrolls fell, impacted by the end of temporary jobs with the Census and many teachers who chose not to return to work.
- ▶ The unemployment rate has dropped from nearly 15% in April at the beginning of the pandemic and is now in line with unemployment rates seen in past major recessions. About half of the jobs lost since February have been recovered.
- ▶ Data for this report was collected the week of September 6, so lags more than is typical. Wells Fargo now estimates the job recovery will not be complete until the end of 2022.

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

Job Openings Rise in July

Job openings rose to 6.62 million on the last day of July after rising to an upwardly revised 6.0 million in June and the number of hires fell to 6.7 million from a record high of 7.2 million in May, according to the latest Job Openings and Labor Turnover Survey (JOLTS) from the US Bureau of Labor Statistics (BLS). The number of hires, which includes rehired employees, declined 1.18 million to a still-solid 5.79 million in July and the hires rate decreased to 4.1% from 5.1% in June. Separations, which include layoffs and quits, rose by 108,000 in July, reflecting an increase in the number of people voluntarily leaving their jobs, which is generally regarded as a vote of confidence.

The quits rate increased to 2.1%, edging closer to where it was at the start of the year, when the unemployment rate was at its lowest in decades. The rate of layoffs and discharges dropped to 1.2% in July from 1.4%. The increase in job openings occurred in all four regions and across many industries, including construction and manufacturing. The BLS warned that the pandemic is affecting their ability to collect reliable data and response rates have dropped since the pandemic began. JOLTS is a lagging indicator, but is closely watched by the Federal Reserve and factors into decisions about interest rates and other measures.

Chicago PMI Rises to 62.4

The Chicago Purchasing Managers Index (Chicago PMI) jumped more than ten points to 62.4 in September after slipping to 51.2 in August and remained in positive territory for the third consecutive month after spending a full year below 50. All five main indicators rose for the month, with Production and New Orders leading the way. Prices Paid jumped nearly ten points, with companies reporting rising costs for PPE, cleaning supplies and raw materials. The special question asked in September concerned business costs; 52% of respondents reported that costs had increased during the pandemic and just over a third of respondents replied that the pandemic had not affected their costs. Looking back to when the series began in 1967, the PMI has ranged from 20.7 in June 1980 to 81.0 in November 1973.

Wholesale Prices Rise 0.3%

The Producer Price Index (PPI) rose 0.3% in August after rising 0.6% in July. In the 12 months through July the PPI fell 0.2%. Excluding the volatile food, energy and trade services components, producer prices rose 0.3% in August. In the 12 months through August, the core PPI was up 0.3%. The overall increase in the PPI was driven by increases in core goods and services. Analysts noted that while pandemic-related price distortions are reversing, the trend in inflation is expected to remain subdued for some time.

Q2 GDP Contracts 31.4%

GDP dropped 31.4% in the second quarter, according to the third and final estimate from the Commerce Department. The final figure was an improvement from the 32.9% decline first reported. Nevertheless, the decline was by far the steepest on records dating back to 1947. Consumer spending contracted by

a slightly downwardly revised 33.2% and the real Personal Consumption Expenditures (PCE) Index declined by a 1.6% annual rate rather than the 1.8% decline first recorded. The economy contracted 5% during the first quarter. Analysts believe the economy will bounce back sharply in the third quarter. Wells Fargo estimates that GDP will grow at an annualized rate of 18% in Q3 and other estimates call for growth of 25%+, assuming that there is not another full lockdown of the economy. Analysts remain concerned that a full business recovery could take longer as the virus drags on and many business sectors remain under pressure.

Q4 Growth Estimates Slashed

Analysts are slashing estimates for Q4 2020 growth because economists no longer expect a second stimulus package to be released before the end of the year. Goldman Sachs cut their growth forecast in half, dropping it to 3% from 6%, JPMorgan's estimate fell from 2.5% from 3.5% and Bank of America cut its forecast to 3% from 5%. Morgan Stanley had originally made one of the most bullish estimates at 9.3% growth, but now estimates 3.5%. They also noted that if the election produces a divided government, it may indicate fiscal gridlock ahead, whereas a unified government may result in fiscal expansion. Morgan Stanley dropped their full-year GDP forecast from -1.5% to -2.7%.

Fed Holds Rates Near Zero

The Fed announced that short-term rates would remain targeted at 0% to 0.25% through 2023. The Fed's GDP forecast improved; they now expect GDP to decline 3.7% this year rather than the 6.5% decline originally forecast. The Fed also dropped their growth outlook for 2021 to 4% from 5% and for 2022 to 3% from 3.5%. They expect unemployment this year to average 7.6%, an improvement from the 9.3% originally forecast. The Fed also elaborated on the newly announced policy that they will allow inflation to run somewhat above the 2% target rate rather than increasing rates to control inflation. Chairman Jerome Powell said that they are committed to keeping the economy healthy over a long term horizon.

HOUSING & CONSTRUCTION

Builder Confidence Rises to 83

Builder confidence rose five points to 83 in September after rising six points in August and 14 points in July, according to the Association of Home Builders/Wells Fargo Housing Market Index (HMI). It was the highest reading for the index since December 1998 and the fourth consecutive monthly increase. According to NAHB, demand remains very strong, but big increases in the cost of materials, including a 170% increase in the cost of lumber, could derail the momentum. All the HMI indices posted their highest readings ever in September. The index gauging current sales conditions rose four points to 88, the component measuring sales expectations in the next six months increased six points to 84 and the measure charting traffic of prospective buyers rose nine points to 73. Regional scores all rose for the fourth consecutive month. Any number over 50 indicates that more builders view the component as good than do as poor.

Building Permits Fall 0.9%

Building permits fell 0.9% in August to an annual rate of 1.47 million units after rising to 1.50 million units in July. **Single-family permits rose 6.0%** to a 1.04 million unit rate and multifamily permits dropped 14.2% to a 434,000 unit rate. On a year-to-date regional basis, permits were mixed.

Housing Starts Fall 5.1%

Housing starts fell 5.1% in August to a seasonally adjusted annual rate of 1.42 million units after jumping to 1.50 million units in July. **Single-family starts rose 4.1%** to a seasonally adjusted rate of 1.02 million units after rising to 940,000 units in July. Multifamily starts dropped 22.7% to 395,000 units after jumping to 556,000 units in July. Regional starts were mixed year to date compared to 2019.

New-Home Sales Rise 4.8%

New-home sales rose 4.8% in August to a seasonally adjusted annual pace of 1.01 million after rising to 901,000 units in July. Sales were at the highest pace since 2006 and 43.2% ahead of sales in August 2019. Inventory fell to a 3.3 months' supply, with 282,000 new single-family homes for sale, 40%

below the supply in August 2019 and the lowest level of inventory from data going back to 1963. Of the inventory total, just 54,000 were completed and ready to occupy. The median sales price fell to \$312,800 from \$330,700 in July and \$327,000 a year ago. **New home sales rose in all four regions.** Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

Existing Home Sales Rise 2.4%

Existing home sales rose 2.4% in August to a seasonally adjusted annual rate of 6.0 million after climbing to 5.86 million in July. Existing home sales were up 8.7% from July 2019 after being down 11.3% year over year in June. The median existing-home price was \$310,600, up 11.4% from August 2019, marking 102 consecutive months of year-over-year gains. Total housing inventory at the end of August was 1.49 million units, a 3.0 months' supply, down 0.7% from July and 18.6% from August 2019. Properties were on the market an average of just 22 days. For the third consecutive month, sales rose in every region. Sales also rose year over year in every region. With home becoming the center for more activities, people are looking for larger homes with flexible spaces. According to NAHB, that should lead to demand that will continue to outstrip supply, which may lead to further escalating prices.

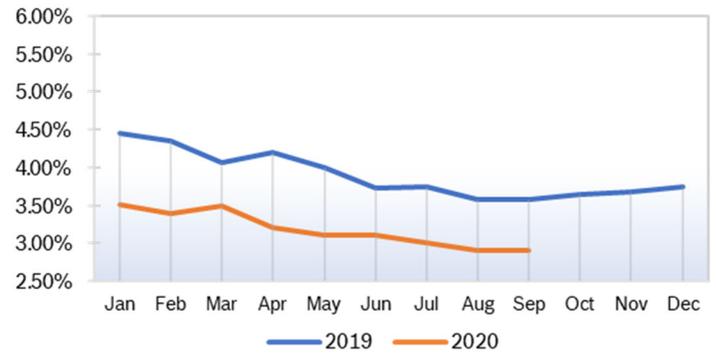
Regional Housing Data September

	Northeast	South	Midwest	West
Builder Confidence*	76 (+11)	79 (+8)	72 (+9)	85 (+7)
Building Permits YTD	-8.2%	+4.8%	+2.6%	-1.3%
Housing Starts Y/Y	-4.5%	+5.4%	+13.6%	+3.8%
New Home Sales	+23.6%	+13.9%	+23.6%	+12.4%
Existing Home Sales*	13.8%	+0.8%	+1.4%	+0.8%

* Year over Year

Mortgage Rates Stable at 2.9%

30-Year Fixed-Rate Mortgage



- ▶ A 30-year fixed-rate mortgage (FRM) was virtually unchanged at 2.9% at the end of September after dropping to 2.91% at the end of August. Mortgage rates were at 3.64% at the end of September 2019.
- ▶ Freddie Mac notes that historic low rates are fueling housing demand and expects rates to remain low through the remainder of the year, although falling inventory and higher home prices could stifle demand.
- ▶ While mortgage rates are historically low, credit standards are tightening as lenders attempt to avoid issuing loans that might go into default.

POWER TOOL INDUSTRY

Robert Bosch Tool Corporation

Bosch Power Tools announced “Always Essential,” a new program that will recognize and acknowledge trade workers for their tireless efforts and give them the thanks they deserve. Roger Amrol, president of Bosch Power Tools North America, noted that while “essential workers” has become a buzzword in 2020, Bosch understands and wants to celebrate the fact that these trade professionals have always been essential to our way of life. Amrol said that without trade professionals, society as we know it today could not exist. Over the coming months, teams from Bosch will meet trade workers at their jobsites around the country with giveaways and other gear to thank these indispensable individuals for all they do.

The Bosch Power Tools Global IT team is focusing on cre-



ating more useful information tools analyzing and utilizing data from many sources. The IT team is combining registration information from people who have bought and registered Bosch power tools, sensor data from the tools themselves and data from repair shops and production lines in order to create better and more useful apps and other information tools. Bosch believes that in the future many more devices will connect to the cloud which will allow more powerful and useful analytics.

Stanley Black & Decker

Morgan Stanley Laguna Conference:

This conference is held for Morgan Stanley clients and employees, not for analysts or the media.

Their number two priority (behind ensuring the health and safety of employees and supply chain partners) is maintaining business continuity. There were days in April when revenues were down 40% for four weeks in a row, but they went from negative 40% in revenue to positive 40% for several consecutive weeks in mid-summer. Now revenue has stabilized in the positive 20% to 30% range.

Ecommerce is booming in general and is growing about 60% for SB&D, accounting for a larger share of total revenue each day. Their sales through home centers are up between 23% and 34%, thanks to the new focus people have on their homes.

Their billion dollar cost-saving program is largely still in place, so that is good for margins and cash flow.

Pros coming back into the market will have a positive impact over time; much of the current boom has been driven by DIY.

They will be exercising their option to purchase the remainder of outdoor power equipment company MTD, with brands including Troy-Bilt and Cub Cadet, which CEO Jim Loree described as good brands, but not of the caliber of DeWalt or Stanley. Part of their strategy will be to come up with a DeWalt line of Pro products related to MTD that will go into the dealer channel, which Loree described as “decent.”

They are working on restaging the Black & Decker brand, and some of that may make it into the marketplace in 2021, with much more impact in 2022 and 2023.

They believe they can manufacture product in the Carolinas using Industry 4.0 at a similar all-in cost compared to manufacturing in China. This will offer other advantages, including the ability for their retailer partners to carry less inventory.

Other News:

DeWalt is partnering with 360training to provide online and mobile-optimized OSHA training to jobsites and workplaces. The partnership will bring OSHA-authorized Outreach instruction for both 10 hour and 30 hour formats. They offered a 25% off promotion in honor of National Safety Week in mid-September. OSHA standards apply to all industries, but Construction Health and Safety has more specific training requirements.

SB&D invested \$40 million in a new plant in Apodaca, Nuevo Leon in Mexico. The manufacturing plant will include 25 power tool assembly lines for drills, circular saws, drill saws and more from DeWalt and Craftsman. The plant currently employs 250 people, and will have more than 2,500 employees when it reaches full capacity next year.

TTI/Techtronic Industries

Milwaukee Electric Tool will get up to \$4.5 million in conditional tax credits and up to \$500,000 in training grants from the Indiana Economic Development Corporation for the 150,000-square-foot warehouse and repair service building scheduled to open in Greenwood, Indiana in March 2021. The tax incentives and grants are performance-based, so Milwaukee only gets them if they do bring 450 new jobs to Greenwood as well as training opportunities through partnerships with the Central Nine Career Center and Ivy Tech Community College in Indianapolis, Indiana. Milwaukee is expected to invest \$6.75 million in the Greenwood facility and the training program.

RETAIL

Retail Sales Rise 0.6%

Retail sales rose 0.6% in August after rising 0.9% in July and were up 2.6% from August 2019. Analysts had expected sales to rise 1.0% in August. Core retail sales, which exclude automobiles, gasoline and sales at building and supply stores and factor into calculations for GDP, fell 0.1% in August after rising 1.4% in July. Building and supply store sales rose 2.0%. The slowdown in spending was likely due to a combination of factors. Pent-up demand that had sent sales soaring in June and July has been satisfied and incomes have declined for a significant share of the population. More than 25 million unemployed people were receiving an additional \$600 each week from payments provided by the CARES Act; those payments stopped in late July.

The Home Depot

Promotions at THD:

Ted Decker was promoted to president and COO, effective October 5, 2020. Decker has served as EVP, merchandising since 2014. He will assume additional responsibility for global store operations, global supply chain, and outside sales and service.

Ann-Marie Campbell was named EVP, U.S. stores and international operations and will add oversight for Canada and Mexico to her responsibilities. She is a 35-year veteran of THD.

Jeff Kinnaird was promoted to EVP, merchandising; he was most recently merchandising VP, Canada.

Michael Rowe has been promoted to president of The Home Depot Canada

Goldman Sachs Global Retail Conference:

They would like to be in a better in-stock position than they are currently in; keeping up with all of the incremental volume generated by pandemic demand has put a lot of demands on the supply chain including their vendor partners and raw materials.

They shifted a market delivery center in Chicago to a direct

fulfillment center in the matter of a couple of weeks to help keep up with the triple-digit growth coming from digital orders.

They never lose sight of the fact that they typically have about \$60 billion in DIY sales annually; that has gone up substantially with the new emphasis on home improvement and maintenance brought on by several pandemic-related factors.

Today their mix is about 55% DIY and 45% Pro, and regardless of how much of the behavior developed during the pandemic continues, they want to grow both the DIY and the Pro business; they do not want to be dominated by Pro business.

In Q2 they had double-digit growth in 13 of 14 departments, with Bath the only department falling slightly short of double digits. Now Bath is starting to come back as people are becoming more comfortable having Pros in their homes.

Their new tagline, “How Doers Get More Done,” is meant to convey that today they have many more ways to help everyone working on projects, from planning tools to buy online, pick up in store. The newest DIYers are millennials and they are starting to see the same behavior from them they saw from Baby Boomers 30 and 40 years ago. As they start getting comfortable with THD, their spending goes up and THD gets a larger share of wallet.

Independents still own all the categories in which THD is a major player, which means there is plenty of opportunity for them to grow their share.

They are working with their supplier partners to focus on key items and make larger and deeper buys that can get them even better values on key product. They are leveraging their end caps and reducing the number of SKUs in order to enable them to handle traffic while at the same time promote social distancing and safety.

They will still have events, but they will last longer and the features will be available across their platforms so that they don't overwhelm stores with foot traffic.

Some operational costs that impacted the second quarter will come down over time, such as their investment in masks. CEO Craig Menear stated he could foresee a time when everyone in the country just carried a mask with them as a matter of course.

The flatbed delivery network they are building out will remove the pressure of delivering products to Pros from the stores. Currently products going out to jobs are staged in aisles, which makes it tough for Pros who are the stores early shopping in person. A few flatbed centers are up and running now; they are trying to be sure they have all the correct elements in place. There will be more coming later this year and they will be expanding the network next year.

They are excited about the capabilities they have to connect Pros to the digital world and grow their Pro business from fill-in purchases to more large-scale planned shopping, an area that they have not really penetrated strongly.

They do not see themselves focusing on homebuilders, because they are not really set up for new construction; for instance, they could not really pull together a lumber package. They don't have space and that's just not what they do. They do have homebuilders that shop at THD, but not to buy their construction packages.

Their focus will remain on customers, not competitors. They believe it is important for them to understand and be aware of what is happening in the competitive landscape, but they will grow their business by better understanding the needs of both DIYers and Pros and doing a better job of meeting those needs.

They will probably open a few new stores in the US in 2021; they are working on fill-in opportunities.

Other News:

THD is hosting a series of livestream workshops so they can share tips and how-tos with children and adults without having to host workshops in stores. The first workshop began streaming September 14 and focused on storm preparations for hurricane, tornado and flood-prone areas. During the class, a Home Depot associate shows viewers how to put together an emergency supply kit, take proper safety precautions, track storm trajectories, minimize home damage, safely use a generator, access resources from relief organizations, and provides information for potential repairs and recovery after an emergency or disaster. THD is also posting workshops and how-to videos on their website.

Lowe's

Lowe's will roll out self-service lockers to more of their 1,700 US stores after a successful trial in the New York, Charlotte and Philadelphia areas. Most metro areas should have the lockers that allow customers to pick up online and phone orders installed before Thanksgiving, with the remainder of stores having pickup lockers by March. That's roughly a year ahead of Lowe's original plans for the program. Lowe's is testing different locker configurations for high-volume and low-volume locations as well as considering options for Pros, who often order items that do not fit in a typical locker. The Home Depot and Amazon already offer these types of options. Lowe's says more than 60% of orders placed online are picked up in stores.

Walmart

After many delays, Walmart debuted Walmart+ in mid-September with a 15-day free trial period. For \$98 annually, members will receive unlimited free deliveries on orders from any of 4,700 Walmart stores and save up to five cents a gallon on gas at Walmart, Murphy USA and Murphy Express. They'll also be able to use a Scan & Go feature on the app to bypass checkout lines and shop using Walmart Pay, their mobile payment option. Analysts say that while Amazon offers many more items for free delivery to Prime members, Amazon has struggled in the groceries and essentials categories, something at which Walmart excels. Amazon Prime costs \$119 annually and offers free one-day delivery on more than 10 million items, as well as on-demand movies and television shows, a music streaming service and video gaming platform.

Walmart is targeting each of their audience segments with the most relevant advertising message about their new Walmart+ service, according to CMO William White. Ads will appear on broadcast and cable television channels such as HGTV and Food Network as well as OTT services such as Hulu. They'll also be using a performance marketing program with ads on platforms like Facebook, Instagram and Pinterest. In 2019, Walmart spent \$630 million on media, according to Kantar. In order to create a variety of ad options, Walmart gave early access to Walmart+ to 22 families and then filmed them using the membership program.

Walmart will hire more than 20,000 workers ahead of the holidays in order to be prepared for the expected surge in

online shopping driven by the pandemic. It's Walmart's first large seasonal hiring in more than five years. Hourly wages reportedly range from \$15.75 to \$23.75. Walmart has already hired more than 500,000 employees since March across their stores and supply chain. Walmart noted they are also increasing the availability of gifts that have become popular due to social distancing, including loungewear, pajamas, grills, bicycles, pet peds and gear for outdoor activities.

Amazon

Amazon confirmed that Prime Day will be October 13 and 14, with more than one million deals being offered across all categories. With Prime Day, which is usually in July, so late in the season, it may well be seen as a kickoff to the holiday shopping season. Walmart and Target have already stated they will also host big online savings events in conjunction with Prime Day.

Amazon is also investing an additional \$100 million in special Prime Day and holiday promotional programs for small businesses, including a \$10 credit for customers to use on Prime Day for Prime members who spend \$10 on items sold by select small and medium-sized businesses (SMBs) on the Amazon marketplace. Amazon will also be spotlighting deals from small businesses and give customers the opportunity to hear directly from business owners during a recurring Amazon Live segment called Small Business Showcase. Third-party sellers on Amazon's platform typically pay a referral fee of 6% to 20%; other sellers pay a flat fee of less than \$40 per month. In the 12 months ending in May, third-party sellers sold more than 3.4 billion products on Amazon's platform and averaged \$160,000 in sales, up from 2.7 billion products and \$100,000 in sales the previous year.

Amazon plans to bring an additional 100,000 small businesses onto their platform as new sellers over the next year. Since the pandemic began, Amazon has been building out their logistics networks and positioning the Amazon marketplace as a way for small businesses to earn revenues during tough economic times. Amazon plans to increase their warehouse space by 50% this year and has added about 125,000 new logistics employees since the pandemic began.

Amazon is restricting advertising from companies that manufacture devices that compete with Amazon's smart products such as speakers, video doorbells and other devices. Amazon typically allows companies to buy ads that appear inside search results, including searches for competing products. Amazon said this is a typical retail strategy; for instance, Walmart refuses to sell Amazon's Kindle e-readers, Fire TV and Tablets and Echo smart speakers.

Amazon is opening a fulfillment center near Stone Mountain, Georgia that will be the first robotics fulfillment center in the state, which is already home to seven other Amazon fulfillment centers.

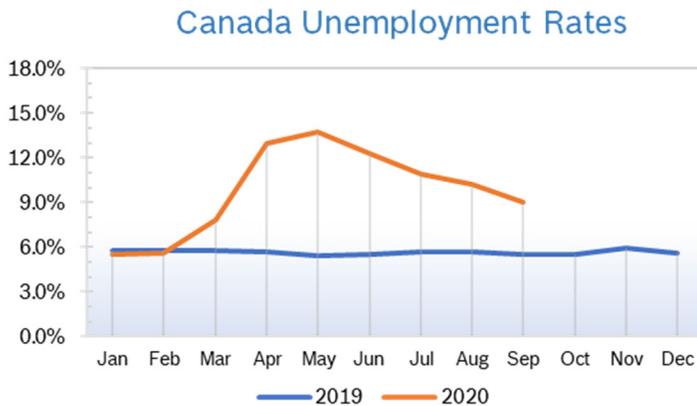
Amazon is hiring 100,000 new employees in the US and Canada, and will be paying signing bonuses of up to \$1,000 in some cities. The new jobs will pay at least \$15 an hour and will include benefits. Amazon will hire about 33,000 people for corporate and tech roles over the next few months through a virtual career fair that was held in mid-September. Amazon said 1,000 recruiters and HR professionals provided 20,000 one-on-one career coaching sessions for job seekers. Last year Amazon received more than 200,000 applications for 30,000 jobs and held in-person career fairs in six US cities. Amazon is now the second-largest employer in the US, behind Walmart.

Amazon will reportedly establish a fleet of 1,000 delivery hubs in suburbs and cities across the US as part of their effort to get closer to their customers and eliminate the advantage that a massive network of physical stores gives rival Walmart. Amazon eventually plans to have about 1,500 warehouses like the one recently opened in Holyoke, Massachusetts, just a short drive from more than 600,000 people.

Amazon introduced Luxury Stores in mid-September, an invitation-only online shopping portal for well-heeled Prime members. The first partner in the new online Luxury Stores is Oscar de la Renta, which will feature their 2020 collections. Amazon says Prime members want the ability to shop their favorite luxury brands on Amazon.

CANADA SNAPSHOT

Unemployment Falls to 9.0%



- ▶ Canada's unemployment rate fell 1.2% to 9.0% in September after falling to 10.2% in August. Unemployment was 5.6% in February before the pandemic and hit a record high of 13.7% in May.
- ▶ Following an increase of 246,000 (+1.4%) in August, employment rose by 378,000 (+2.1%) in September.
- ▶ There were 1.8 million unemployed Canadians in September, down 214,000 (-10.5%) from August and continuing the four-month downward trend from the record-high 2.6 million unemployed people in May.
- ▶ Employment in construction little changed for the second consecutive month in September, and was down by 120,000 (-8.1%) compared with its pre-COVID level. Employment in construction was down the most in Ontario (-54,000; -9.5%) and British Columbia (-39,000; -16.3%).
- ▶ After four months of increases, employment in retail trade held steady in September. Compared with February, employment in this industry was down by 146,000 (-6.4%).
- ▶ Data was collected the week of September 14th; throughout September, some restrictions were re-imposed in response to increases in the number of COVID-19 cases in British Columbia and Ontario.

Consumer Confidence Rises to 83.6

The Index of Consumer Confidence inched up 5.2 points to 83.6 in September, according to the Conference Board of Canada. Consumers were more optimistic in general. However, despite this month's uptick, the pace of the recovery of consumer confidence has stalled. The confidence index has been fluctuating around the 80 mark for four consecutive months. Compared with its peak, reached in February (120.6), the index is now 37 points below its pre-pandemic level. 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 0.1%

The Consumer Price Index (CPI) rose 0.1% on a year-over-year basis in August, matching the increase in July. Economist had expected prices to increase 0.4% Excluding gasoline, the consumer price index rose 0.6% in August. Regionally, prices rose the fastest in Prince Edward Island. Statistics Canada continued to rely on telephone and the internet, rather than the in-person interviews that are typically done, due to CV19 restriction. Despite the increase, economists expect inflation to remain below the Bank of Canada's (BoC's) target of 2%. The average of Canada's three measures for core inflation was 1.7%. Economists noted that despite the rebound, prices have a long way to go to recover. For the year, the Conference Board now expects consumer prices to rise just 1.1%.

GDP Grow 3.0% in July

GDP grew 3.0% in July after growing 6.5% in June, according to Statistics Canada. The third consecutive monthly gain left the Canadian economy just 6% below February's pre-pandemic level. All 20 sectors of the economy grew, as businesses continued to reopen and tried to get back to some sense of normal after lockdowns in March and April. Retail trade continued to improve and surpassed pre-pandemic levels but sales at building material and garden equipment and supplies stores fell 10.2%. Construction grew 0.6% in July as gains in residential (+2.4%) and repair (+2.5%) construction more than offset lower nonresidential construction (-3.0%) and engineering and other construction (-0.5%). Statistics Canada expects growth to slow in August, with the economy growing just 1.0%.

Interest Rates Remain Low

The Bank of Canada (BoC) held the key interest rate at 0.25% in September, and warned that all indicators point to a slow and choppy recovery despite the big third-quarter rebound. The rebound in employment has been uneven, energy prices remain weak, exports remain below pre-pandemic levels and business confidence and investment remain subdued. Experts suggest that the BoC's key rate could stay where it is until late 2022 or into 2023, based on the pace of the recovery, which is largely dependent on the course of the pandemic. Lower rates help drive down rates of mortgages and loans and make it easier for people to borrow and spend, which aids the recovery.

Housing and Construction News

The annual pace of housing starts rose 7% in August to a seasonally adjusted annual rate of 262,396 units after jumping to 245,604 units in July, according to Canada Mortgage and Housing Corp. (CMHC). Higher multifamily starts in Ontario, including Toronto, drove the national increase with cities in Quebec and Ontario leading the country in terms of the volume of new homes under construction. It was a very strong showing, and well above expectations.

Canada's home sales continued to climb in August, rising 6.2% to 55,962 homes on a seasonally adjusted basis. It was the fourth consecutive month home sales have risen. Sales were up 1.7% from July and 9.4% from August 2019. The Canadian Real Estate Association (CREA) noted it was the second consecutive month that home resales and the price index have both hit record highs. The number of new listings increased 10.6% from July to August. Real estate analysts say that the government restrictions that slowed sales over eight weeks between March and May led to pent up demand that is causing a surge in sales now. The demand for bigger properties and green space has increased sales of homes in the country's biggest urban areas, as well as less pricey regions such as Niagara, Hamilton and Burlington in Ontario. Meanwhile, condo sales have fallen, with less new supply and less demand.

July Retail Sales Rise 0.6%

Retail sales rose 0.6% to \$52.9 billion in July, led by higher sales at motor vehicle and parts dealers and gasoline stations. Core retail sales, which exclude these two subsectors, declined 1.2% on lower sales (-11.6%) at building material and garden equipment and supplies dealers as well as at food and

beverage stores. Retail sales soared in June after three months of declines. Only 3% of retailers remained closed in July. Sales rose in five provinces.

Retail Ecommerce Sales Rise

On an unadjusted basis, retail ecommerce sales were \$2.8 billion in July, accounting for 4.8% of total retail trade. The percentage of retail sales accounted for by ecommerce has dropped since stores began reopening, but is still 1.7% above July 2019 levels. On a year-over-year basis, retail ecommerce sales have jumped 63.2%, while total unadjusted retail sales have increased 5.6%. When adjusted for basic seasonal effects, retail e-commerce decreased 8.1% in July.

Retail Notes

Lowe's Canada launched a VIPpro program at Lowe's, RONA and Reno-Depot corporate stores. The new program will offer Lowe's Canada's Pro customers a better, more integrated and more flexible purchasing experience, with extra benefits, discounts and advantages that will be offered across all the stores regardless of the store banner. Lowe's Canada operates more than 235 corporate stores of various formats under three different banners; Pros will get the same benefits no matter where they shop. Some of the benefits include a 5% discount on everything (10% on paint), dedicated customer service, bulk discounts, early opening hours, priority curbside pickup, flexible site delivery options and a 365-day return policy and price guarantee. Lowe's also officially launched the VIPpro app that allows members to view their data, special offers and profile info on their mobile device at all times as well as provides access to exclusive deals, managed employee access, links and a store locator.

Lowe's Canada is recruiting for about 625 jobs in RONA and Reno-Depot stores in Quebec for full-time and part-time positions in stores and also in one of the distribution centres.

Amazon will open two new fulfillment centers in Ontario next year, a move they say will create 2,500 jobs.

Canadian Tire (CTC) is partnering with cloud-based artificial intelligence (AI) provider Medallia in order to gain real-time insights into the complete customer experience across all of its banners. CTC says that they are working towards creating a seamless customer experience. Canadian Tire operates more than 1,700 retail and gasoline outlets across Canada.

East Ontario paramedics will open drive-thru testing centers for coronavirus at Canadian Tire Centers in order to take some of the pressure off Ottawa's jammed testing system.

Amazon plans to hire 3,500 Canadians as they expand their offices in British Columbia and Ontario. About 3,000 jobs will be in Vancouver, where Amazon is expanding their offices at the Post building. They will also be leasing new office space in Toronto, where they'll be adding 500 workers.

MARKET TRENDS

The Great Migration

Home builders are currently selling homes faster than they can build them, with inventory declines occurring among homes either under construction or already completed. In addition, the inventory of homes that have not yet started construction rose only slightly, an indication that builders may be scrambling to secure more lots and open new communities. The reason the median price in August dropped for the second month in a row as well as year over year is that a growing proportion of home sales are occurring in the South, particularly in smaller and midsized metros where new home prices are well below prices in the West and Northeast.

The housing market is also seeing a big uptick in first-time buyers who are purchasing homes at the lower end of the pricing continuum. The proportion of new homes for sale at \$300,000 or less has jumped 10% over the past two months and now accounts for 40% of sales. A year ago, homes in that price range accounted for just 23% of sales.

There has been much anecdotal evidence that there has been a big shift to the South from high cost areas along the West Coast and in the Northeast. Moving companies have reported big increases in moves to the South and the premium for U-Haul trucks leaving the Northeast and West for the South, compared to the other way around, has widened considerably. The South is also the nation's largest housing market with the most inventory. Sales in the South have jumped 28.5% over the past two months, and several of the nation's hottest markets are currently in the South, led by Austin, Tampa, Nashville, Raleigh and Charlotte.

Many factors are likely contributing to the migration, including a desire to escape from the winter spent indoors during the pandemic that's a byproduct of living in the Northeast, terrifying and massive wildfires along the West Coast and parts of the West and the desire to live somewhere with more open space where people are not crowded together into cities.

Holiday Spending Forecast

Deloitte's holiday spending forecast is not overly jolly.

They expect sales to increase between 1% and 1.5% from November to January compared to last year. The forecast reflects the lingering uncertainty about CV19 and the economy. A vaccine could spur consumer confidence and job growth, while continued spikes and layoffs could lead shoppers to focus on saving instead of spending. It is also possible that cash that would have typically gone towards travel, dining out and holiday events may be diverted to gifts as people try to figure out how to make the holidays special during a global pandemic. With more shoppers relying on online shopping, holiday sales online are expected to jump between 25% and 35% compared to last year's 14.7% spike; that would add up to a total of \$182 to \$196 billion in online sales. Many stores are not opening Thanksgiving Day this year, deciding instead to give employees the day off and avoid creating pandemic crowds. Mall operator Simon says all of its malls will be closed. The Home Depot reports that holiday sales will last nearly two months instead of being concentrated over the Black Friday holiday weekend.

Holiday Shipping Surcharges

Many shippers are raising prices to help cover the costs of meeting surging demand over the holidays. Amazon will raise shipping rates over the holidays to offset the peak holiday surcharge scheduled to be imposed by the USPS from October 18 through December 27. This is the first holiday surcharge ever levied by the Post Office, which has been under tremendous pressure to reverse losses and start showing a profit. The surcharges will apply to the popular Parcel Select drop-shipping service, which allows consolidators to dump bulk parcels at the Post Office for delivery by letter carriers to residences nationwide. The increase will be as much as 7.5%, adding about 24 cents to the cost of a one-pound package. UPS also plans to mark up the cost of the SurePost product they operate along with the USPS. The increase could be two to four times the higher price it will pay to the USPS. FedEx has not clarified their

holiday plans yet. They were originally expected to move all of their postal parcel business in-house by the end of 2020; however, pandemic-related surges in volume may have delayed these plans.

Economic Recovery

The US economy will only fully recover from the CV19 downturn when people once again feel it is safe to resume their normal activities, according to Fed Chairman Jerome Powell, who testified for three days before House and Senate committees on the response to the coronavirus' impact on the economy. Some sectors, such as retail and housing, have seen sharp rebounds, while other sectors, including travel, leisure and entertainment, lag behind. Powell has repeatedly warned that prosperity needs to be broadly spread out in the long term to deliver the greatest possible benefit to the economy and has called for more support for the economy, but Congress remains deeply divided in this critical election year.

The government would need to supply at least \$500 billion in additional income support to US households to achieve 2% growth in consumer spending over the next twelve months, according to a new report from BCA Research. That means that another stimulus package doesn't need to match the \$2 trillion Cares Act fiscal stimulus passed by Congress in March unless the economy takes a serious and unexpected downturn.

Most economists predict that third quarter numbers will show that the economy bounced back, perhaps rising as much as 30%. However, even a gain that large would leave GDP 5% behind pre-pandemic levels. Estimates for a full recovery and a return to positive year-over-year growth range from second quarter of 2021 to the end of the year. Much of the timing will depend on the course of the pandemic, the timing of a vaccine and the resolution of social and political unrest.

Safety in Nature

Research shows that nature reduces stress, boosts creativity, happiness and productivity and is also good for people physically. Amazon planted more than 40,000 plants and trees inside their Seattle headquarters, a move that many thought was more symbolic than actually beneficial. But in addition to having research-proven benefits, bringing nature inside in these pandemic times offers a degree of comfort as well as an escape. Office designers and consultants say that it is easy to

bring nature into the smallest office buildings and workspaces. Simply allowing people to bring plants from home or changing the art from motivational posters to soothing nature-scapes can be a big boost to well-being. Other ideas include using plants along corporate walkways and in lobbies and other open spaces and painting in the colors and hues of nature.

Droning On

Walmart and Amazon are moving forward with plans to use drones. The FAA has issued a Part 135 air carrier certificate to Amazon for their fleet of Prime Air drones, which is the FAA's stamp of approval for Amazon's ambitious plan to use drones to deliver packages and shorten delivery times to 30 minutes or less. At a conference in Las Vegas last year, Amazon revealed a fully electric hexagonal drone that can carry up to five pounds and was smart enough not to run into the family dog or anything else. Walmart has started a pilot test of drone delivery of grocery and household items from their stores in Fayetteville, Arkansas. The automated drones can fly about 6.2 miles carrying packages that weigh up to 6.6 pounds. Walmart first mentioned testing drones back in late 2017, and has been using drones in some of their Sam's Club locations to help manage inventory.

Zoom Expands Reach

Zoom is coming to devices, including Amazon's Echo Show, Google's Nest Hub Max and Facebook's Portal. As part of the initiative, Zoom will sell a dedicated unit from DTEN with a 27-inch screen as part of the Zoom for Home program. The Zoom unit is \$599, and will only work on specified versions of devices. Zoom plans to add voice tools eventually. [Voicebot.ai.blog](https://voicebot.ai/blog) says there are 87 million smart speakers in use in the US, and 16.5% of the owners have smart displays, with Echo Show in the lead at 7 million devices.

Why TikTok?

And the winners in the TikTok negotiating war are....Oracle and Walmart. When President Trump announced he would ban TikTok in the US if it was not sold to an American company, several suitors threw their hats into the ring. At first a Microsoft-Walmart liaison was thought to be favored, but in the end TikTok chose to sell to an Oracle-Walmart partnership. Oracle will acquire a 12.5% stake and Walmart will acquire 7.5%; the resulting company will be called TikTok Global. One analyst noted that Walmart stands to gain new social tools and youthful

consumers; he likened it to Walmart investing in Amazon when Amazon was first starting out. Having ownership in social media platforms allows retailers to directly tap into user likes/dislikes and interests, customize advertising and product placement and potentially design their own interactive advertising solutions so people can purchase within the app. Oracle provides merchant-facing technology that enables services such as personalized shopping and incentive marketing.