

# Market Briefing

## Content

US Economy	2
Housing & Construction	4
Power Tool Industry	5
Retail	7
Canada Snapshot	10
Market Trends	13

## US ECONOMY

**Consumer Spending Rises 1.9%**  
**Consumer Prices Rise 0.6%**  
**Consumer Confidence Drops to 84.8**  
**Unemployment Falls to 8.4%**  
**Chicago PMI Falls to 51.2**  
**Wholesale Prices Rise 0.6%**  
**Q2 GDP Revised Up to -31.7%**

## HOUSING & CONSTRUCTION

**Builder Confidence Rises to 78**  
**Building Permits Rise 18.8%**  
 ▶ Single-family permits rise 17%  
**Housing Starts Rise 22.6%**  
 ▶ Single-family starts rise 8.2%  
**New-Home Sales Rise 13.9%**  
**Existing Home Sales Rise 24.7%**  
**Regional Housing Stats**  
**Mortgage Rates Fall to 2.91%**

## POWER TOOL INDUSTRY

### Stanley Black & Decker

- ▶ Raises Q3 forecast
- ▶ Named Top 100 for Innovators

### TTI/Techtronics

- ▶ First half sales rise 12.8%
- ▶ Milwaukee sales rise 13.3%
- ▶ First half presentation to analysts

## RETAIL

### Retail Sales Rise 1.2%

#### The Home Depot

- ▶ Q2 sales rise 23%; comp sales rise 25%
- ▶ Conference call with analysts

#### Lowe's

- ▶ Q2 sales rise 30.1%; comp sales rise 34.2%
- ▶ Conference call with analysts

#### Walmart

- ▶ Q2 sales rise 5.6%
- ▶ Comp US sales rise 9.3%

#### Ace Hardware

- ▶ Q2 sales rise 35.1%
- ▶ Comp sales rise 35.3%
- ▶ Plans Mexico expansion

#### Amazon

- ▶ Expands US offices
- ▶ CEO successor retires
- ▶ Approved for internet satellites
- ▶ Invests in electric vans

## CANADA SNAPSHOT

### Economy

### Housing & Construction

### Retail

## MARKET TRENDS

### Paycheck Protection Program Helps Construction Sector

### Construction Employment Down

### New Materials and Prefab Construction

### Amazon and Walmart Fight it Out Online

### Shippers Implement Holiday Fees

### Retailers Launch Coalition to Fight Counterfeit Goods

### Liability for Third-Party Goods

### Online Spending Grows

### Amazon Mall-Based Fulfillment Centers

Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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## US ECONOMY

### Exchange Rates August 31, 2020

<b>Euro</b>	1 Euro = \$1.195	\$1.00 = 0.837 Euros
<b>Canadian Dollar</b>	1 CAD = \$0.767	\$1.00 = 1.303 CAD
<b>Japanese Yen</b>	1 Yen = \$0.009	\$1.00 = 105.827 Yen
<b>Chinese Yuan</b>	1 Yuan = \$0.146	\$1.00 = 6.848 Yuan
<b>Mexican Peso</b>	1 Peso = \$0.046	\$1.00 = 21.884 Pesos

### Market Watch August 31, 2020

<b>DOW</b>	28,430	+7.6%
<b>NASDAQ</b>	11,775	+8.9%
<b>S&amp;P 500</b>	3,500	+7.0%

It was the best August since the 1980s for the Dow and S&P. Since their March lows, both indexes are up 55.7% and 59.4%, respectively. The Fed's new relaxed stance on inflation means rates should stay low for some time to come. All three indexes posted their fifth consecutive monthly gain.

### Consumer Spending Rises 1.9%

**Consumer spending rose 1.9% in July** after rising an upwardly revised 6.2% in June and a record 8.6% in May. Core consumer spending rose 0.3%. The July increase left spending about 4.6% below the pre-pandemic level in February. The savings rate slipped to 17.8% in July from 19.2% in June. The government pumped massive amounts of money into the economy from April to June when the economy was largely shut down; aid slowed in July but did not dry up entirely. Most economists think growth could soften or even stall moving forward without more federal aid. The loss of income could force consumers to spend less and try to save even more, which would slow non-essential purchases and create challenges for businesses that need sales to pick up so they can bring back more workers. Consumer spending accounts for 70% of US economic activity.

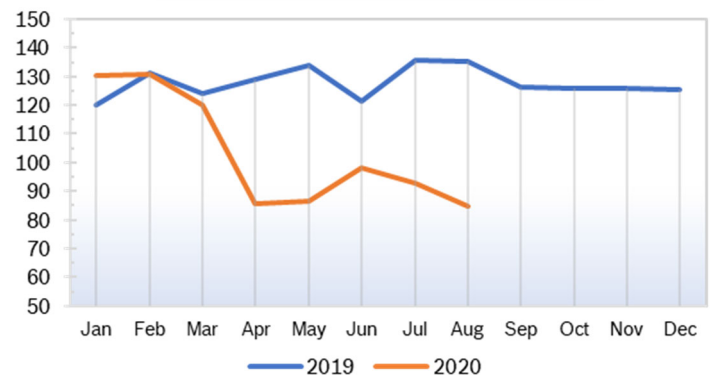
### Consumer Prices Rise 0.6%

**The Consumer Price Index (CPI) rose 0.6% in July** after rising 0.6% in June and was up 1.0% from July 2019. Excluding the

volatile food and energy components, core prices rose 0.6% in July after rising 0.2% in June and were up 1.6% year over year. The increases in both overall and core CPI were well above expectations. Economists are not concerned that the jump heralds a big rise in inflation because there are at least 31.2 million people on unemployment benefits, which will keep wage pressure subdued. About a quarter of the increase was due to rising gasoline prices. The personal consumption expenditures (PCE) price index excluding the volatile food and energy components rose 0.3% in July, matching June's advance. In the 12 months through July, the core PCE price index climbed 1.3% after increasing 1.1% in June. The core PCE index is the preferred inflation measure for the Fed's 2% target, which is now a flexible average.

### Consumer Confidence Falls to 84.8

#### Consumer Confidence Index

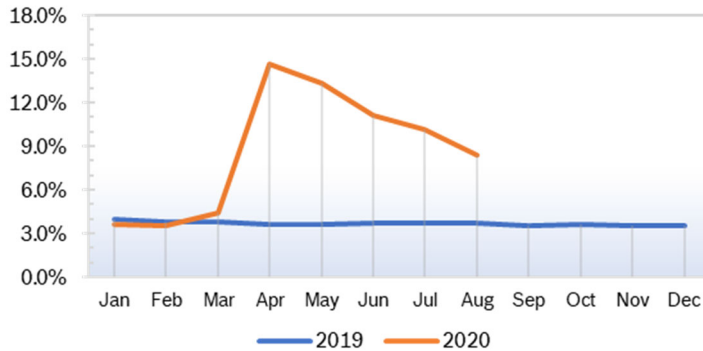


- ▶ The New York-based Conference Board's Consumer Confidence Index fell to 84.8 in August after falling to a downwardly revised 91.7 in July.\*
- ▶ The Present Situation Index, which is based on consumers' assessment of current business conditions, dropped sharply to 84.2 after rising to an upwardly revised 95.2 in July.
- ▶ Expectations slipped to 85.2 in August after dropping to a downwardly revised 88.9 in July, the first time Expectations had dropped below 90 in five months.
- ▶ Consumers were generally less positive and optimistic and felt that overall conditions had declined over the month.

\*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 Falls to 8.4%

### U.S. Unemployment Rates



- ▶ The unemployment rate dropped to 8.4% in August after falling to 10.2% in July and the economy regained 1.4 million jobs after adding back 1.76 million jobs in July.\*
- ▶ Employment remains about 11.5 million jobs below the pre-pandemic level in February, the official start of the Pandemic Recession.
- ▶ 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.
- ▶ Sectors that were among the hardest hit at the beginning of the pandemic have been some of the quickest to recover jobs, including hospitality, healthcare and retail.
- ▶ Several large companies have warned they need to make job cuts soon in order to remain viable. Analysts say employers' attitudes have shifted from early in the pandemic when people thought it would be a matter of weeks.

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 Jump 9.6%

**Job openings jumped 9.6% to 5.9 million on the last day of 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 people quitting their jobs rose 25% to nearly 2.6 million, a big jump that is unusual in the depths of a recession. Analysts speculate that it's possible many workers may be reluctant to remain in jobs that they believe put their health or their family's health at risk. It is also possible that

many people are quitting jobs in order to look after or home school children. These improvements in the labor market reflected the easing of restriction and resumption of business in the new-normal in much of the country in June, when many retailers, restaurants and entertainment venues reopened. 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 Falls to 51.2

**The Chicago Purchasing Managers Index (Chicago PMI) slipped to 51.2 in August** after rising to 51.9 in July, but remained in positive territory for the second consecutive month after spending a full year below 50. Among the five indicators, Order Backlogs was the only category that showed a monthly decline, while Supplier Deliveries recorded the largest gain. Production rose to the highest level since June 2019 and New Orders edged up to a one-year high. Inventories fell 9 points in August, hitting the lowest level since March, as companies run down their stocks. Prices Paid at the factory gate dropped 1.9 points in August after three consecutive monthly gains. This month's special question asked when people expected to get back to normal capacity. The majority (55.6%) say sometime in 2021 or later, while 26.7% report they are already back at normal capacity. Another 8.9% expect to be back at full capacity in the third or fourth quarter of this year. Looking all the way back to when the series began in 1967, the PMI has ranged from 20.7 in June 1980 to 81.0 in November 1973.

## Wholesale Prices Rise 0.6%

**The Producer Price Index (PPI) rose 0.6% in July** after falling 0.2% in June. In the 12 months through July the PPI fell 0.4%. Excluding the volatile food, energy and trade services components, producer prices rose 0.5% in July after rising 0.3% in June. In the 12 months through July, the core PPI was up 0.3%. The overall increase in the PPI was about twice what economists were expecting. Inflation has been held in check by the sharp recession caused by CV19. Oil prices have bounced off pandemic lows and wholesale gas prices have risen but food prices have fallen slightly overall. Washington is spending trillions of dollars to prop up the economy but overall lack of demand is forcing companies in some sectors to keep prices down, while pandemic demand and short supply is inflating prices in other sectors, making accurate analysis difficult.

## Q2 GDP Revised Up to 31.7% Decline

**GDP dropped a revised 31.7% in the second quarter** rather than the 32.9% decline first reported. Nevertheless, the decline was by far the steepest on records dating back to 1947. Consumer spending dropped 34.6% and real Personal Consumption Expenditures (PCE) declined 34% rather than the 35% initially reported. 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, assuming that there is not another full lockdown of the economy, but analysts remain concerned that a full business recovery remains a ways off as the virus drags on, businesses remain under pressure and lawmakers are at a stalemate regarding further stimulus.

## Fed Changes Inflation Policy

**Fed Chairman Jerome Powell announced a major shift in the way the Fed will try to manage inflation** and achieve maximum employment and stable prices, based on lessons learned from the most recent economic expansion. The Fed won't increase interest rates to respond to low unemployment levels and also won't worry as much about low rates triggering a rise in prices. The Fed adjusted their inflation goal to an average target of 2%. In practical terms, that means they won't be raising rates any time soon and are not currently worried about the economy overheating.

## HOUSING & CONSTRUCTION

### Builder Confidence Rises to 78

**Builder confidence rose 6 points to 78 in August** after jumping 14 points to 72 in July, according to the Association of Home Builders/Wells Fargo Housing Market Index (HMI). It was the third consecutive monthly increase for builder confidence. According to NAHB, demand remains very strong, but big increases in the cost of materials, including a 110% increase in the cost of lumber, could derail the momentum. All the HMI indices posted gains in August. The HMI index gauging current sales conditions rose six points to 84, the component measuring sales expectations in the next six months increased three points to 78 and the measure charting traffic of prospective buyers gained eight points to reach its highest level ever at 65. **Re-**

**gional scores all rose for the third consecutive month.** Any number over 50 indicates that more builders view the component as good than do as poor.

### Building Permits Rise 18.8%

**Building permits jumped 18.8% in July** to an annual rate of 1.50 million units after rising to 1.22 million units in June. **Single-family permits increased 17.0%** to a 983,000 unit rate, and multifamily permits rose 22.5% to a 512,000 unit pace. On a year-to-date-regional basis, permits were mixed.

### Housing Starts Rise 22.6%

**Housing starts continued to climb in July, jumping 22.6%** to a seasonally adjusted annual rate of 1.50 million units after rising to 1.19 million units in June. Starts were well ahead of expectations. **Single-family starts rose 8.2%** to a seasonally adjusted rate of 940,000 units in July after rising to 831,000 units in June. Multifamily starts jumped 58.4% to 556,000 units after rising to 355,000 units in June. **Regional starts were up year to date compared to 2019 in all regions.** NAHB says demand continues to grow in lower-density areas, fueled by low interest rates and a pandemic-driven shift to the suburbs and rural areas. Among other factors, this usually means people are moving to lower-cost areas, making housing more affordable. Builders are now dealing with rising costs, including a 110% increase in the cost of lumber, which is adding an average of \$14,000 to the average single-family home.

### New-Home Sales Rise 13.9%

**New-home sales rose 13.9% in July** to a seasonally adjusted annual pace of 901,000 units after rising double-digits to 776,000 units in June. Sales were at a 13-year high and 36.3% ahead of July 2019. Inventory fell to a 4 months' supply, with 299,000 new single-family homes for sale, 8.8% below the supply in July 2019 and the lowest level of inventory since 2013. The median sales price rose to \$330,700 from \$329,200 in June and was up from \$308,300 in July 2019. **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 Jump 24.7%

**Existing home sales rose 24.7% in July** to a seasonally adjusted annual rate of 5.86 million after climbing to 4.72 million in June. Existing home sales were up 8.7% from July 2019 after dropping 11.3% year over year in June. The median existing-home price was \$304,100, up 8.5% from July 2019, as prices rose in every region. July’s national price increase marks 101 straight months of year-over-year gains. For the first time ever, national median home prices breached the \$300,000 level. Total housing inventory at the end of June was just 1.50 million units, a 3.1 months’ supply, down 2.6% from June and 21.1% from July 2019. **Sales rose in every region** for the second consecutive month, but year-over-year sales were mixed. With home becoming the center for more activities, people are looking for larger homes with flexible spaces, which according to NAHB should lead to continuing demand.

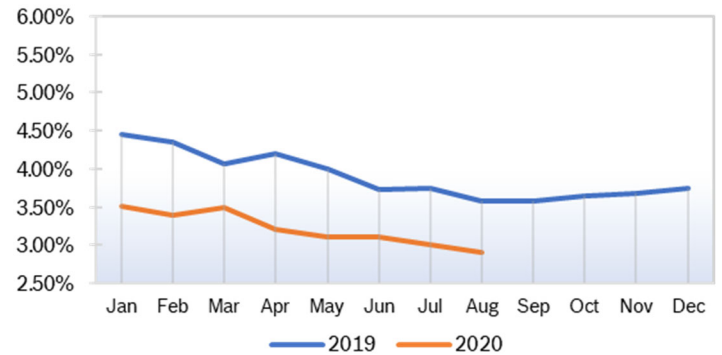
## Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence*	65 (+20)	71 (+12)	63 (+13)	78 (+15)
Building Permits YTD	-6.2%	+5.4%	+3.2%	-1.6%
Housing Starts Y/Y	+9.3%	+5.2%	+5.9%	+1.4%
New Home Sales	+21.7%	+4.8%	+20.4%	+8.7%
Existing Home Sales*	-5.9%	+12.6%	+10.3%	+7.8%

\* Year over Year

## Mortgage Rates Fall to 2.91%

### 30-Year Fixed-Rate Mortgage



- ▶ A 30-year fixed-rate mortgage (FRM) inched down to 2.91% at the end of August from 3.01% at the end of July. Mortgage rates were at 3.58% at the end of August 2019.
- ▶ Freddie Mac notes that historic low rates are fueling housing demand and expects rates to remain low through the remainder of the year.
- ▶ 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

### Stanley Black & Decker

**SB&D raised their forecast for organic revenue for Q3 to 7% to 10% growth** from their July forecast for revenues to be flat to down 7%. They cited stronger demand in the Tools & Storage segment, modest improvements in store level inventories in US retailers and stronger trends in the Security and Industrial segments. SB&D said that the upwardly revised guidance will most likely result in operating margins being relatively flat compared to 2019.

**SB&D was named as one of the 100 Best Workplaces for Innovators** on the second annual ratings list from Fast Company. SB&D ranked 55th in their first appearance on the list. Fast Company collaborated with Accenture to score nearly 900 applications; winners were chosen by a panel of eight judges.

## TTI/Techtronic Industries

**First half 2020 sales rose 12.8% to USD \$4.2 billion.** The core Power Equipment segment grew 12.8% to USD \$3.7 billion. The Milwaukee professional business grew 13.3% overall and 12.8% in North America. The Ryobi Outdoor business grew 25%. CEO Joe Galli said that new product development fueled their strong first-half performance, which was also aided by an expanded global sales network, improved manufacturing productivity and a strengthened supply chain.

### First Half 2020 Earnings Call

**First half revenue rose 12.8%** to more than USD \$4.2 billion.

**Power Equipment sales grew 12.8%** to USD \$3.7 billion. Both Milwaukee and Ryobi ONE+ delivered double-digit growth. The Power Equipment division accounted for 89.1% of the group's revenue.

**North American sales grew 14.5%** and North America accounted for 77.3% of the group's revenue.

**They deliberately avoided the path taken by "competitors"** who announced expected double-digit sales declines and massive cost-cutting efforts. Instead they worked literally around the clock in late March and early April listening to their customers and sales people all over the world. After analyzing input, they implemented a dramatically different plan of attack.

**They invested in production and inventory, ramped up manufacturing and invested in more manufacturing capacity.**

They also invested aggressively in even more product development, because they believed there was an unprecedented opportunity for them to capture market share.

**In addition, TTI "dramatically expanded" their salesforce** to help customers and help end users.

**They now have momentum going into the second half** and are confident they will continue to outperform their competition and the market.

**They are not achieving growth through price;** their gross margins are actually increasing.

**They hired more than 1,000 people** in 2020 in sales, market-

ing, engineering and operations for their Leadership Development Program.

**The Milwaukee business grew 13.3% globally and 12.8% in North America** despite the industrial construction business getting hit hard. They are rolling out new cordless products now, including a metal-cutting circ saw, an impact wrench and a portable bandsaw and chainsaw. CEO Joe Galli stated Milwaukee now offered the broadest line of cordless subcompact tools for industrial construction.

**CV19 delayed the rollout of MX Fuel a bit** because it was necessary for them to visit job sites and demonstrate the tools. They developed very stringent CV19 protocol and are now welcomed on job sites.

**The Milwaukee Packout system has reportedly become the preferred mobile storage solution** for professional and industrial users, and they are now expanding it and have dozens of concepts underway.

**Their Milwaukee team developed a line of personal protective equipment (PPE) and safety equipment.** The line includes masks, ear protection, hard hats and more. It is now in distribution and reportedly selling well.

**The Ryobi DIY brand also has big developments in store.** They will be rolling out a line of high-performance brushless products in the second half of 2020. These subcompact DIY tools are also appropriate for professional use.

**They have also been working on a line of Ryobi cleaning products** that utilize their unique battery technology and leverage the fact that there are so many users of the Ryobi ONE+ 18-volt line.

## RETAIL

### Retail Sales Rise 1.2%

**Retail sales inched up 1.2% in July** after surging a total of 25.7% in May and June. Sales were up 1.1% from June 2019 and were 1.2% above the pre-pandemic pace in January 2020. Non-store sales, which include online sales, slowed further,

inching up 0.7%, a possible indication that online shopping has leveled off. Sales at building and supply stores fell 2.9% in July after jumping a total of 13.7% in May and June. However, this category is still up 6.8% versus its pre-recession peak. Core retail sales, which exclude automobiles, gasoline and sales at building and supply stores and factor into calculations for GDP, rose 1.4% in July, which was above expectations. Core sales rose 6.7% in June.

## Postal Service Holiday Surcharge

**The USPS is warning businesses of new commercial shipping fees** that start October 18 and run through December 27. Both UPS and FedEx have used peak pricing in the past, but this is the first time the USPS has implemented a holiday surcharge. The Post Office has been struggling to get expenses under control, and funding has been held up due to a dispute over mail-in ballots. President Trump has long pushed the USPS to charge more to shippers; analysts note that if the cost of shipping USPS rises, private companies like UPS and FedEx will be able to raise prices even more.

## The Home Depot

**Q2 net sales rose 23.4%** to a record \$38.1 billion, substantially ahead of estimates. **Comp sales in the US grew by a record 25%**. Comps grew in 20% or more in every week of the quarter.

### Q2 Conference Call with Analysts:

**Foreign exchange rates negatively impacted total sales growth by about \$200 million.** All 19 US divisions posted double-digit positive comps and the Canadian business saw record sales.

**They made several adjustments in the second quarter, including taking a more localized approach to customer limits in stores.** They are relying on store managers and field teams to monitor and implement limits as needed.

**They extended weekly bonuses for hourly associates** in stores and distribution centers.

**They instituted a mask policy for all associates and customers in US stores and other facilities.** They spent \$110 million on associate and customer safety, most of that related to masks and PPE. That expense grew in the second quarter as

they mandated masks for all associates in stores and warehouses, but they expect it to moderate in Q3.

**Customers are very engaged with their homes** and took on many projects in the second quarter, including building decks, painting, landscape work and home repairs and maintenance.

**They have found no correlation between the number of CV19 cases in an area and sales performance.**

**Customers are consolidating the number of retailers they visit and are also blending physical and digital shopping** more than ever before. Mobile and online sales doubled in the first quarter. The increased demand also creates challenges, particularly in fulfillment and delivery.

**They were able to temporarily transition one of their recently opened market delivery centers (MDCs) to a direct fulfillment center (DFC)** which primarily fulfill online orders. The investments they've made enabled them to compete the transition in just a few weeks.

**They canceled their annual Memorial Day event and adjusted other spring events** to avoid driving more traffic into already crowded areas in the store, such as garden and paints. They also removed most off-shelf merchandising displays to support social distancing. They will continue to have events and promotions, but they will be modified and more modest.

**Teams have been very flexible and have worked cross-functionally.** They altered marketing plans, social media product flow, product selection and space allocation.

**They feel as if they have the best supplier partners in the business** and they are working together to make real-time adjustments in assortments, for instance when they need to support in-stock levels for high demand items.

**Over the quarter 13 of 14 merchandising departments poste double-digit comps,** comp average ticket increased 10.1% and comp transactions increased 12.3%. Growth was driven by an increase in basket size and customers trading up to new and innovative items, not by seasonal sales.

**Merchandise inventory fell by \$1.2 billion** over the quarter, driven by significant and steady demand. Inventory turns were 6.1, up from 5.1 in 2019.

**Inflation and core commodity categories like lumber added 61 basis points to average ticket.** However, this was somewhat offset by softer performance in certain indoor installation-heavy categories like kitchens and countertops.

**There was strong sales growth for both Pro and DIY segments,** with DIY growing more quickly than Pro sales. DIY customers are investing in both indoor and outdoor projects.

**Existing customers set record levels of engagement and one third of new customers came back** and bought something from another department.

**Their mobile app saw record downloads** and conversion rates grew significantly across all digital platforms.

**Customers say they plan to continue to invest in their homes but THD is not making short-term projections** due to the high degree of uncertainty surrounding the pandemic. However, they believe in the resilience of home improvement demand over the long run. With everyone spending more time living and working at home, people notice things that need to be done and think about improvements and changes they'd like to make that will make their home more functional and more enjoyable.

**A quarter like Q2 provided a tremendous opportunity to engage customers across multiple platforms and increase loyalty.**

**Low-spend Pros were less impacted in Q1 and continued to accelerate purchases in Q2,** and high-spend Pros are continuing to rebound. Permitting and job inspections are coming back online and there are places in the country where people have become more comfortable having service providers in their homes.

#### Other News:

**THD is opening three new distribution centers in Georgia over the next 18 months** to support the growing demand for flexible delivery and pick-up options. One of them is a flatbed delivery center that is set to open in 2021 that will offer same-day and next-day delivery of bulk and oversized orders to both Pro and DIY customers.

**THD plans to eliminate expanded polystyrene foam and polyvinyl chloride film from their private label packaging by 2023** and has pledged to produce and procure 335 MW of renewable and alternative energy capacity by 2025 as part of a series of new sustainability goals.

## Lowe's

**Q2 Sales grew 23.1% to \$27.3 billion and comp sales increased 34.2%** overall and 35.1% in the US. Online sales grew 135%.

#### Q2 conference call with analysts:

**Sales were driven by consumer focus on the home,** core repairs and maintenance and a shift from other discretionary spending.

**They experienced unprecedented demand in many categories** due to customers spending more time at home. They would not have been able to meet this demand without all the investments they've made in updating and improving their technology and systems.

**DIY comps outpaced Pro comps in the quarter.** Pro sales delivered strong comps in the mid-20s, with demand accelerating in May and remaining strong throughout the quarter.

**Growth was balanced across the US,** with positive comps of more than 30% in all 15 geographic regions and all three US divisions. Comp sales in urban markets outperformed remote and rural markets.

**The 135% increase in online sales drove their online penetration to 8% of sales.** They completed the replatform of their website to the cloud during the quarter, which enabled them to improve site functionality and sustain triple-digit growth without system interruptions.

**In Canada, they posted positive comps that exceeded 20%,** driven by a similar focus on the home as well as strong execution by their new leadership team.

**Over the next 18 months they will ramp up delivery capabilities,** opening 50 cross-dock delivery terminals, seven bulk distribution centers and four ecommerce fulfillment centers.



**Through the first half of 2020 they've invested \$560 million in incremental financing to support associates.** They've also committed \$55 million in grants to support minority owned and rural small businesses.

**The measures they employed to increase store safety included** removing product to free up floor space, adding signage and floor markings, creating social distancing ambassadors and using technology to monitor store traffic. In the second quarter they began requiring all frontline associates to wear masks and in mid-July mandated that all customers wear masks. They will provide free masks to customers who need them.

**In June they launched JobSIGHT for Pros** in partnership with Stream. The free augmented video chat service allows Pros to conduct virtual home visits with clients.

**Pro Loyalty customers will receive a free one-year subscription to Home Advisor** and a credit for an average of 10 free job leads, as well as access to webinars hosted by industry experts on how to grow their business.

**They continue to see robust demand for cleaning products** along with other home necessities and appliances. Home has transitioned from being the place we live to the schoolroom, office and recreation and fitness center.

**They saw strong growth across all segments of power tools,** along with growth in tool storage and mechanics tools, driven by the Craftsman brand.

**Lowe's is expanding their Pro brand offerings,** and launching Simpson Anchor Strong Tie's framing hardware and fasteners during their Just for Pros customer acquisition event. This product will meet a critical need for Pros.

**They are continuing to enhance their omnichannel capabilities** and launched mobile check-in for curbside pickup in early July. In the second half of the year they hope to deliver online delivery scheduling, online order tracking, a dynamic customized homepage, simplified search and navigation and expanded online product offerings.

**Customers are expected to stay closer to home this holiday season** and focus on home improvement projects, including remodeling and space conversion, as well as holiday decorating and gifting.

**Third and fourth quarters typically generate less revenue than second quarter** due to the natural demand cycle in the home improvement sector. They expect promotional activity to increase modestly over the remainder of the year but not approach pre-pandemic levels.

**They believe they have a big opportunity to increase their sales per square foot,** which are still about \$100 below Home Depot's. They were very surprised to discover most stores don't even have planograms in the system, making it impossible to properly merchandise and have a good replenishment strategy.

**They have not delayed large projects;** instead, they've accelerated the ones they believe can help them drive productivity and enhance their omnichannel strategy. Their price management system is helping them better understand how to drive benefits related to pricing.

**If CV19 has affected sales, it has done so in a positive way;** they see very strong sales in areas with outbreaks and an increasing number of cases.

#### Other News:

**Lowe's is testing an in-house service center that will rent tools and equipment** at their central Charlotte store. If the 4,000-square-foot department is successful, Lowe's will duplicate the model across the country over the next few years, according to Fred Stokes, senior vice president of Pro Sales and Services. The Tool Rentals will be in newly constructed spaces that either expand existing stores or are located next door. They will rent everything from drain-cleaning and restoration tools to tools for sanitation and concrete. Merchandise including PPE and cleaning solutions will be available for purchases. The Tool Rental will include a fully equipped mechanic shop to service tools, space for on-site cleaning and areas for product demonstrations. Lowe's is anxious to capture a bigger share of the \$400 billion professional market. Lowe's says there are certain tools that customers want to test before buying or that have limited use, making rental more attractive than owning, maintaining and storing them. Lowe's reports that more than 70% of Pros rent tools.

## Walmart

**Q2 sales rose 5.6% to \$137.7 billion and comp store US sales rose 9.3%.**

**Walmart will be offering advertisers a new measuring tool that** will give them on-demand visibility into how their campaigns are performing in-store and online. The tool is available for all Walmart display and sponsored products campaigns and comes from Walmart Media Group's advertising analytics division. The performance dashboards include one for display ads and one for sponsored products campaigns, which feature pay-per-click ads that drive traffic to select items by ensuring they appear on the first page of search results and category and item pages.

**Walmart reportedly will use Instacart to offer same-day deliveries to customers.** Walmart and Instacart are testing the service in four California markets as well as in Oklahoma. Instacart recently raised \$225 million to scale up operations.

## Ace Hardware

**Q2 revenue rose 35.1%** to a record \$2.28 billion. **Comp sales in the US rose 35.3%**, and online revenues skyrocketed 493%. Average ticket rose 18.2%.

**Increases were seen across all departments**, with power tools, outdoor power equipment and grilling showing the largest gains.

**Up to half of all stores globally were closed at some point during the quarter.** Ace Wholesale Holdings includes a large number of paint and decorating stores that were not considered essential. Nevertheless, their revenues rose \$0.4 million.

**Ace added 25 new domestic stores in the quarter and cancelled 27 stores.** Their total domestic store count rose by 57 to 4,564 stores.

**CEO John Venhuizen said the second quarter was the most difficult, unusual and yet most rewarding quarter** in Ace's history, and he was most pleased and impressed with how the Ace team delivered under incredible pressure.

**In order to meet the unprecedented demand they hired more than 900 additional warehouse specialists** and plan to continue hiring more this quarter.

**Ace International plans to expand into Mexico via franchising.** Ace noted that Mexico has the world's 11th largest econo-

my and a very high rate of home ownership. The franchise program in Mexico will offer a variety of flexible store formats ranging from 300 square meters to 3,000 square meters and will offer both Mexican and global brands to meet the needs of the home improvement consumer. The primary area of franchise development for Ace will be in Mexico City with a projected opening of the first store in mid 2021. Ace has enlisted Feher Consulting, headquartered in Mexico City, to serve as the company's exclusive franchise representative. Experience with retail or franchising and a minimum liquid investment of USD \$2 million is a requirement for interested investors.

## Amazon

**Amazon plans to create 3,500 jobs by expanding physical offices across the US.** They'll invest more than \$1.4 billion in Dallas, Detroit, Denver, New York, Phoenix and San Diego to support Amazon Web Services, Alexa, Amazon Advertising, Amazon Fashion, OpsTech, Amazon Fresh and other elements of their business.

**The once-presumed successor to Amazon CEO Jeff Bezos will retire early next year.** Jeff Wilke, retail chief, has been a key player at Amazon for more than 20 years and had been thought to be the logical successor to Bezos. As the current CEO of Amazon's Worldwide Consumer business, Wilke oversees the online marketplace, which accounts for the lion's share of Amazon's sales and employees. Wilke said he is not leaving for another job and he is as "happy with and proud of Amazon as ever." He'll be succeeded by Dave Clark, another 20-year veteran, who is currently svp of Amazon's worldwide operations. Bezos said Wilke's legacy will live on long and without him, Amazon would be completely unrecognizable today. None of the executives involved were available for comment.

**Amazon will send more than 3,000 satellites into space to provide high-speed internet for developing countries.** The program, Project Kuiper, was approved by the FCC. The low orbit satellites will provide constant high-speed internet access to developing countries and areas in the US and UK with poor service. Amazon must launch half of the permitted satellites by 2026 in order to retain their license; the remainder need to go up by 2029. Great Britain has also been licensed to deploy about 650 satellites to provide mobile phone and broadband service to remote areas of the UK.

**Amazon ordered 1,800 electric vans from Mercedes-Benz** for their European deliveries, part of Amazon's commitment to build the most sustainable transportation fleet in the world.

## CANADA SNAPSHOT

### Unemployment Drops to 10.2%



- ▶ Canada's unemployment rate fell 0.7% to 10.2% in August after falling to 10.9% in July. Unemployment was 5.6% in February before the pandemic and hit a record high of 13.75 in May.
- ▶ During the 2008/2009 recession, the unemployment rate rose from 6.2% in October 2008 to a peak of 8.7% in June 2009. It took approximately nine years before it returned to its pre-recession rate.
- ▶ Employment continued to rise at a faster rate in the service sector than in the goods-producing sector.
- ▶ Employment rose by 246,000 (+1.4%) in August, compared with 419,000 (+2.4%) in July. Combined with gains of 1.2 million in May and June, it brought employment to within 1.1 million (-5.7%) of the pre-COVID February level.
- ▶ Restrictions have been eased in most of Canada, but remain in place in much of southwestern Ontario, including Toronto.
- ▶ The number of people working from home dropped for the fourth consecutive month.
- ▶ Employment increased in every province except Alberta and New Brunswick, with the largest gains in Ontario and Quebec.

### Consumer Confidence Drops to 78.4

**The Index of Consumer Confidence declined 4.1 points in August to 78.4**, reversing three consecutive months of increasing confidence. Consumers were more pessimistic overall in August, 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 0.7%

**The Consumer Price Index (CPI) rose 0.1% on a year-over-year basis in July**, down from a 0.7% increase in June, according to Statistics Canada. Excluding gasoline, the CPI rose 0.7%. On a seasonally adjusted monthly basis, the CPI fell 0.1% in July. Prices rose year over year for five of the eight major components but price growth slowed. Gasoline prices fell for the fifth consecutive month. Prices rose year over year in five provinces and declined in three of the four Atlantic provinces. In July, measures remained in place across much of the country to restrict gatherings and the movement of people. 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%. 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%.

### Quarterly GDP Shrinks 11.5%

**Real GDP dropped 11.5% in the second quarter**, which included the worst of the lockdowns and other measures aimed at controlling CV19. It was the deepest quarterly decline since Statistics Canada began publishing quarterly data in 1961. On an annualized basis, the decline was 38.7%, more severe than the annualized 31.7% plunge reported in the US. Analysts noted Canada's sharper decline was likely due to the fact that Canada's lockdown began earlier and imposed stricter measures than were taken in the US. While the slowdown was deep, it was actually at the low end of economists' expectations, and the resumption of economic activity was stronger than anticipated. Real GDP actually surged 6.5% in June, a one-month record, and well above expectations. Statistics Canada also expects GDP to rise 5% in July. That would leave real GDP up about 15% from the low point in April, and about 6% below the pre-pandemic level in February. Figures for June were also

upgraded. That will most likely result in strong numbers for the third quarter.

## Housing and Construction News

**The annual pace of housing starts jumped 16% in July** to a seasonally adjusted annual rate of 245,604 after increasing 8% in June, according to Canada Mortgage and Housing Corp. (CMHC). It was the highest level since November 2017, and contrary to CMHC's prediction of a huge decline in building. Starts jumped in pricey Toronto as well as in more affordable areas outside of the city. New construction jumped from June to July in Calgary, Edmonton and Saskatoon, cities that have all suffered from two oil price crashes in a decade, but remained below prepandemic levels. In Atlantic Canada, starts more than doubled in Halifax, Saint John and Moncton. CMHC says they are still worried about downside risks, including a second wave of CV19 cases and another lockdown, high unemployment, no immigration and homeowners who are unable to resume mortgage payments when their six-month deferrals end. The agency has also forecast a decline in home prices of up to 18% from peak, but thus far that has not been the case.

**Canada's home sales continued to rise in July, climbing 26%** after jumping 63% in June and 56.9% in May and were up 30.5% from July 2019 on an unadjusted basis. The Canadian Real Estate Association (CREA) said that the 62,355 sales in July 2020 marked the highest monthly sales figure on records going back more than 40 years. The number of newly listed properties climbed 49.5% from May to June and available inventory was at a 3.6 months' supply on a national basis, a 16-year low. Actual sales price was up 6.5% year over year.

**The benchmark five-year mortgage rate reported by the Bank of Canada fell to 4.79%**, the third time mortgage rates have dropped this year. The Bank of Canada (BOC) noted the drop in rates will help make it easier for buyers to qualify for mortgages. The BoC dropped rates to 4.94% in May after dropping them to 5.04% in March.

## June Retail Sales Rise 23.7%

**Retail sales rose 23.7% in June** to \$53.0 billion. After three months of sales below pre-pandemic levels, retail sales in June were 1.3% higher than February sales as more regions moved ahead with plans to reopen their economies. Sales were up in

every province and all subsectors, with growth primarily led by motor vehicle and parts dealers, as well as clothing and clothing accessories stores. Sales rebounded sharply at retailers that had been deemed non-essential at the start of the pandemic. Furniture and home furnishing stores (+70.9%), building material and garden equipment and supplies dealers (+13.0%), as well as sporting goods, hobby, book and music stores (+64.9%) all posted sales that were higher than February levels. Overall, second quarter retail sales were down 13.3% compared with the first quarter. In volume terms, quarterly retail sales were down 12.4%.

## Retail Ecommerce Sales Grow

**Retail ecommerce sales were \$3.2 billion in June, accounting for 5.5% of total retail trade.** Ecommerce sales in June made up a smaller share of retail sales than in April and May, as more non-essential retailers opened their brick-and-mortar stores. However, the proportion of ecommerce to total retail sales still remained above the pre-pandemic share in February. On a year-over-year basis, retail ecommerce increased 70.6%, while total unadjusted retail sales increased 3.0%.

## Retail Notes

**Canadian Tire's Q2 revenues fell to \$3.16 billion in June,** down from \$3.69 billion in June 2019. Performance was hurt by the temporary closure of many retail stores, including 203 of 504 Canadian Tire stores, in order to stop the spread of CV19. Retail sales excluding petroleum rose 9.3% for the quarter. Sales grew 20.3% at Canadian Tire stores, but sales dropped at SportChek and Mark's. Shipments to Ontario dropped 26% during the five-week closure in that province. Lower orders were coupled with unprecedented and unpredictable demand for some products, including bicycles, pools and outdoor furniture, where demand far exceeded both historical demand and available inventory. Canadian Tire also incurred \$41 million in additional costs related to the pandemic, including adding safety protocols to stores.

**Canadian Tire is using artificial intelligence (AI) to help manage through the economic disruption caused by the pandemic.** Canadian Tire temporarily closed or operated in a limited capacity about 40% of stores. Last year CT debuted a platform that uses machine learning to analyze internal sales-related data and external environmental data in order to spot

patterns, such as increases in particular items at individual stores. The system also uses natural language processing, so 4,500 front-line employees can interact with it through voice queries or texts. For example, the system picked up trends immediately that led to a 189% increase in demand for exercise equipment and a 110% growth for backyard items, including patio furniture and barbeque grills. When the system picked up a surge in bicycle sales in West Coast stores, the company was able to redeploy inventory almost immediately to meet demand, and saw bicycle sales rise 78% compared to Q2 last year.

## MARKET TRENDS

### Paycheck Protection Program Helps Construction Sector

**More than 101,000 architecture, engineering and construction companies received Paycheck Protection Program loans** worth at least \$150,000 from April 3 to June 30, according to *Engineering News-Record*. That amounts to 15.3% of such loans across all industries but does not include many construction-related companies.

### Construction Employment Down

**Employment in construction fell by 630,000 jobs at the height of the pandemic**, but has since recovered about 158,000 jobs, according to the Bureau of Labor Statistics. Large segments of the industry were heavily impacted by widespread shutdowns as well as long delays in processes such as permits and inspections. This disproportionately impacted the big Pro section of the industry. Many small Pros were able to take advantage of the consumers' renewed interest in maintaining and improving their homes, which had become offices, school-rooms, gyms and rec centers as many people stayed home.

### New Materials and Prefab Construction

**The construction industry is improvising and adapting to challenges from the coronavirus pandemic** by using new materials, considering off-site production and exploring new materials. Prefabrication allows production in a controlled environment which helps guard against infection. Off-site production of building components, such as bathrooms and panelized wall systems, helps reduce the risk of workers being clumped close-

ly together on a job site. Construction firms are also exploring the use of materials that can be cleaned more easily and don't absorb bacteria and viruses. Such materials will likely be installed in heavily trafficked areas, such as lobbies, corridors and restrooms. Some products work like shrink wrap; there are anti-microbial products that can be put on door handles that kill germs on contact and last for six months.

### Amazon and Walmart Fight it Out Online

**Amazon captured more Walmart customers than Walmart captured Amazon customers during the pandemic**, according to Facteus, which tracks credit and debit card spending. They report that when Americans concerned about catching CV19 began avoiding physical stores and shifted their spending to online, more Walmart customers turned to Amazon than to Walmart's own website. During the first week of February, for every dollar spent with both retailers, 66 cents went to Walmart and 34 cents to Amazon. By the first week of August, 55 cents went to Walmart and 45 cents to Amazon. After some initial problems, Amazon hired 175,000 people to speed up delivery times and stepped up safety measures in warehouses. McKinsey noted that Amazon was well positioned to take advantage of a sudden shift in consumer behavior that, according to McKinsey, has compressed 10 years' worth of online sales growth into three months. Consumers also became more tolerant of shipping delays, with more than 8 in 10 saying that delays of a few days or longer were reasonable given the pandemic, according to a survey of 500 Amazon customers conducted in June by Goat Consulting. Marketplace Pulse reported that the Amazon website attracted 2.57 billion visitors in July, more than Walmart, Home Depot, Target, Best Buy, eBay and Etsy combined.

### Shippers Implement Holiday Fees

**UPS plans to levy hefty fees on large shippers during the holiday season**, reflecting the added complexity and cost of the surge in online orders due to the pandemic. UPS's new chief executive, Carol Tome, took over the top spot after decades as CFO at The Home Depot. She said that the surcharges are necessary in order for UPS to maintain their high-quality service. Fees could be as much as an additional \$3 per package for ground and \$4 for air shipments bound for residences, with additional fees for special handling and large items. Fees will apply from mid-November through mid-January. The US Postal Service has also announced an increase in holiday ship-

ping costs for packages starting October 8 and running through December 27. FedEx declined to comment but is evaluating added fees, and stated that holiday surcharges are part of the new normal. In the past FedEx has not imposed surcharges on residential deliveries, instead working with shippers to manage volume. FedEx has charged more during peak periods for bulky parcels.

## Retailers Launch Coalition to Fight Counterfeit Goods

**The Buy Safe America Coalition is ready to take on counterfeit goods online.** The Retail Industry Leaders Association (RILA), whose members include Walmart and Target, has joined more than a dozen trade groups to form a coalition dedicated to fighting counterfeit goods on online platforms such as Amazon. The coalition will back legislation that would require digital marketplaces to verify information about third-party merchants on their platform.

## Liability for Third Party Goods

**Amazon can be held liable for damages caused by defective goods sold on the Amazon Marketplace,** including goods sold by third parties. The California Fourth District Court of Appeals overturned the original verdict, which found that Amazon could not be held liable. This ruling could create a major hurdle for all retailers that sell goods online. Amazon had argued that the seller was liable, not Amazon, even though the goods were bought on the Amazon marketplace.

## Online Spending Grows

**Consumers spent \$211.5 billion online during the second quarter of 2020,** with ecommerce sales up 31.8% from the first quarter. Ecommerce sales accounted for 16.1% of total retail sales during the quarter; total retail sales dropped 3.1% during the second quarter. Compared to the second quarter of 2019, ecommerce sales rose 44.5% and total retail sales decreased 3.6%. Ecommerce sales soared for many retailers in the second quarter, as did curbside pickup.

## Amazon Mall-Based Fulfillment Centers

**Analysts have been looking into Amazon's recent negotiations with the nation's largest owner of shopping malls.**

Amazon reportedly wants to place fulfillment centers in spaces

once occupied by anchor-tenants who are no longer in business, including Sears and J.C. Penney. One Forrester analyst noted that a great deal of research goes into locating malls to make sure they are within easy reach of thriving demographics, major thoroughfares and residential areas, so leasing anchor space in a mall guarantees that someone else has already done a great deal of homework. As of this spring, Amazon operated 110 fulfillment centers in North America and a total of 185 globally, as well as more than 40 sortation centers. Amazon centers range from 600,000 to more than one million square feet. Amazon has said that their larger centers can ship as many as one million packages each day. Analysts note that being strategically located in malls could help Amazon speed up delivery times for the all-important last-mile.