Market Measure

The Industry’s Annual Report

What We'll Cover

More Online

Hardware Retailing is providing further Market Measure analysis via a video discussion from the magazine's executive editor, Dan Tratensek. To hear Tratensek's perspective on the current state of the industry and its outlook, visit **TheRedT.com/market-measure**.

The information in this Market Measure report was gathered by Hardware Retailing *staff from a variety of resources that are attributed throughout the feature.*

Though there has been a lot of hushed talk in recent months about the R-word looming on our economic horizon, economist opinions are certainly split about whether a recession may be headed our way.

While market watchers continue to debate the meaning of current economic indicators and the state of the housing market, all the signs we look at point to slower economic growth for the home improvement industry over the next several years.

Similar to 2018, unemployment is low, wages are up and home prices have been on the rise.

Since the last recession, home improvement spending and investment in housing and remodeling have all seen steady growth. This growth has helped sales through home improvement retailers outpace overall retail growth for years.

However, in 2019, we saw signs that the strength of the home improvement retail market may be slowing.

After getting year-end results for 2018, we revised our year-over-year growth predictions from 2017-2018 down to 4.8 percent (from 5.5 percent).

We saw growth throttle back in 2019 and are currently predicting the year will end with sales of $407.1 billion for the industry, with year-over-year growth in 2020 of about 3 percent.

Market Expectations

Looking ahead to year-end results and beyond, the slightly grim news is that we see 2019 being the best growth year for the industry in our five-year forecast. We expect compound annual growth from 2018-2023 to run only at slightly more than 3 percent, well below the 4 to 5 percent we saw in the recent past.

An article in the Oct. 25 edition of *The Wall Street Journal* uses data from the Joint Center for Housing Studies of Harvard University to sum up rather well some of the challenges the home improvement industry is facing.

"Following years of 5 percent to 7 percent growth in spending since last decade's housing crash, Harvard's model has been predicting slower growth for the past year or so and an outright decline next year for the first time since 2010," the article states.

The reasons for the market softening mainly revolve around fewer large construction projects and less homebuilding activity, slower sales of existing homes and diminished remodeling work.

However, as we have seen in the past, even as some of these higher-priced projects slow, homeowners don't stop spending when their bathroom sinks need to be repaired and kitchen walls need to be painted.

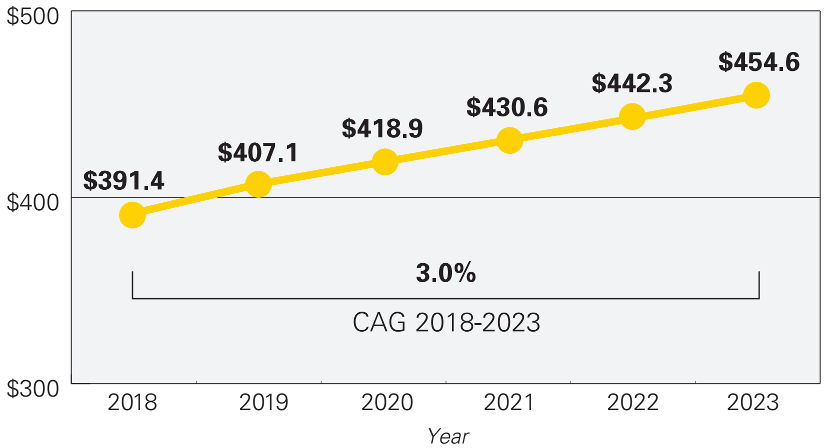
What all this means is that we expect home improvement industry sales to slow in the coming years as larger projects get put off, though interest rates could impact this trend in either direction.

At the same time as large construction and remodeling projects slow, smaller home updates and repairs will take on more prominence for home improvement customers.

Over the next five years, we predict people will continue investing in their existing houses, even if large-scale remodels diminish in priority.

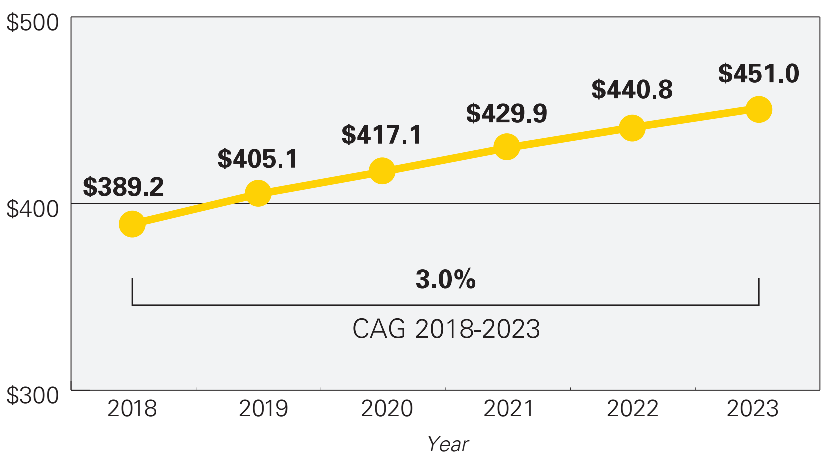
U.S. Home Improvement Sales

*(in billions, NRHA/*Hardware Retailing *projections)*



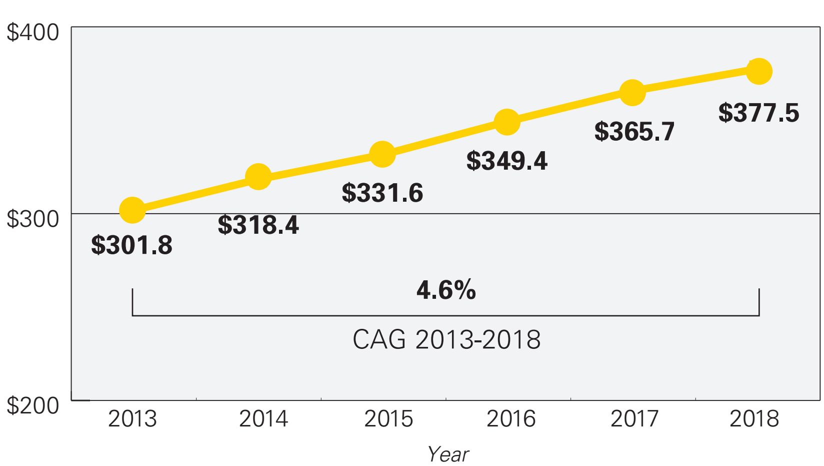
U.S. Home Improvement Sales

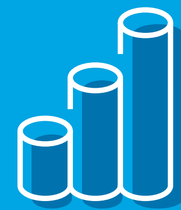
(in billions, Home Improvement Research Institute & IHS projections/Current Prices)



U.S. Home Improvement Sales

(in billions, U.S. Department of Census/Monthly Retail Sales Report NAICS 444/Not Adjusted)





2.3%

Home Depot's projected total sales growth for 2019

Source: Home Depot report, August 2019

Percent of independent retailers who expected sales to increase moderately or significantly by the end of 2019 (at midyear)

Source: 2019 NRHA Midyear Review research

2%

Lowe's overall projected sales growth for 2019

Source: Lowe's report, August 2019

A Closer Look at Home Improvement Sales

The following monthly and annual breakdowns of industry sales in the U.S. include results from large privately held chains, public companies and independent home improvement businesses. The store counts also reflect the entire industry.

2019

Home Improvement Sales by Month (in billions)	
January	$27.3
February	$24.6
March	$30.5
April	$34.7
May	$37.8
June	$34.1
July	$34.4
August (p)	$33.1
YTD	$256.5

2018-2023 Sales by Type of Store (in billions)

	Total	Hardware Stores	Home Centers	Lumberyards
2018	$391.4	$49.7	$244.0	$97.7
2019	$407.1	$51.8	$251.7	$103.6
2020	$418.9	$52.1	$259.1	$107.7
2021	$430.6	$53.2	$266.0	$111.4
2022	$442.3	$55.5	$272.7	$114.1
2023	$454.6	$57.8	$281.6	$115.2
2018-2023 Compound Annual Growth Rate	3.0%	3.1%	2.9%	3.4%

2018 vs. 2019

Home Improvement Sales Growth	
January	11.4%
February	0.8%
March	-1.0%
April	4.2%
May	-3.3%
June	-5.3%
July	-0.9%
August (p)	0.3%
YTD	0.5%

Source: U.S. Department of Census/ Monthly Retail Sales Report NAICS 444/Not Seasonally Adjusted

2018-2023 Outlets

	Total	Hardware Stores	Home Centers	Lumberyards
2018	38,620	19,170	9,780	9,670
2019	38,480	19,100	9,730	9,650
2020	38,395	19,050	9,710	9,635
2021	38,255	19,000	9,680	9,575
2022	38,125	18,900	9,675	9,550
2023	38,060	18,850	9,670	9,540
2018-2023 Percentage Change	-1.5%	-1.7%	-1.1%	-1.3%

*Source: NRHA/*Hardware Retailing

Top Chains: Individual Performance

The home improvement industry's public companies and large privately held chains have seen consistent sales growth. Notably, Home Depot's sales increased 37.3 percent and Lowe's sales grew 33.5 percent from 2013 to 2018. Lowe's store count fell when the company left Mexico and closed all Orchard Supply Hardware stores as well as some underperforming Lowe's stores.

	2018 Sales (in billions)	Stores at End of 2018	Stores in 2019 (as of fall 2019)
Home Depot	$108.2	2,287	2,291**
Lowe's	$71.3	2,015	2,003**
Menard Inc.	$10.3*	316	325
Tractor Supply	$7.9	1,765	1,814
84 Lumber	$3.9	252	251
Carter Lumber	$1.5	153	160
Northern Tool + Equipment	$1.5*	105	114
Sutherland Lumber	$1.0*	48	52

Sources: Company reports and Hardware Retailing *research*
The above represent home improvement retail chain stores that carry at least two core categories and have sales of approximately $1 billion or more.
**Source:* Hardware Retailing *estimates*
***Store counts include operations in the U.S., Canada, Mexico and all other locations.*

Market Share Profile

The performance results below include information from the publicly traded and largest privately held home improvement companies in the U.S. The percentages show the total growth of these businesses specifically.

Top Chains: Industry Share

	Sales (as % of total industry)	No. of Stores (as % of total industry)
2014*	49.4%	16.1%
2015	49.7%	16.4%
2016	51.3%	17.4%
2017	51.9%	17.7%
2018	52.5%	18.0%
2014-2018 Percentage Point Change	3.1%	1.9%

Top Chains: Combined Performance

	Net Sales (in billions)	No. of Stores
2014*	$159.4	6,308
2015	$168.6	6,447
2016	$183.6	6,846
2017	$193.9	6,988
2018	$205.6	6,941
2014-2018 Compound Annual Growth Rate	6.6%	2.4%

*In 2014, new chain stores were added and others were removed in a top chain re-evaluation process.

A Record-Breaking Look at Retailers' Financials

For more than a century, the North American Retail Hardware Association (NRHA) has gathered data from independent hardware stores, home improvement centers and lumberyards to compile its annual *Cost of Doing Business Study*. As the industry's only financial benchmarking tool, the study gives retailers the information to compare their finances to typical and high-profit peers.

The *2019 Cost of Doing Business Study* features data from the 2018 fiscal year, including critical financial information from income statements, balance sheets and key performance ratios. You'll find highlights from this year's study in the following pages, showing an overall positive year for hardware stores, home centers and lumberyards.

Historically, retailers have used the study to understand the financial health of their stores compared to similar operations. Retailers can use the study data to establish new financial goals and help individual retailers identify areas where they may be able to lower expenses and save money.

This year's study includes financial information from a record-breaking 1,117 independent home improvement store participants, representing a wide swath of retailers. The high number of participants ensured results were more accurate and relevant than ever before.

Study Methodology

Each year, NRHA fields the *Cost of Doing Business Survey* by mailing questionnaires to hardware stores, home centers and lumberyards in the U.S.

NRHA then completes an analysis of the aggregate numbers in the final report after extensively reviewing retailers' financial data. Individual responses are kept in the strictest confidence.

Most figures in this report are medians, meaning 50 percent of businesses fall below that number and 50 percent are above it. The median represents a typical company's financial results, without extreme figures skewing the data.

To identify high-profit operations, NRHA ranks all participating companies in their category based on net profit before taxes. The high-profit companies are in the top 25 percent of their store type.

Using This Study

To get the most out of these selected results from the *2019 Cost of Doing Business Study*, follow these tips.

- **Compare numbers.** Determine your operating expenses as a percentage of sales and calculate your balance sheet as a percentage of total assets. Compare those numbers to the study results for typical and high-profit stores.
- **Look beyond the percentages.** Take time to compare your real-dollar expenditures as well.
- **Consider the results.** If you find your store's individual data veers sharply from what's contained within the study, explore the cause behind the discrepancy and develop a plan to bring your numbers on par with high-profit stores.
- **Participation counts.** Note that this report contains figures from a different sample group of stores each year. Overall figures can vary from year to year based on the group of participating operations. Year-to-year comparisons are helpful for illustrating general trends over time.

Figures to Know

- **Average Transaction Size**
  Average transaction size is the total sales over a period of time divided by the total number of transactions in that same period.

  Use It: *Measure your average transaction size weekly to spot shopping trends and establish a baseline for your business.*

- **Payroll**
  Payroll is the total cost of owner and employee salaries, insurance payments and benefit plans.

  Use It: *Compare your payroll expenses to typical and high-profit operations to find areas you could cut.*

Training Hours Per Employee

17 — Average Hours

10 — Median Hours

Percent of Unsold Inventory (Last 24 Months)

15% — Average Inventory

11% — Median Inventory

Shrink Expense as a Percent of Sales

2.3% — Average Shrink

1.0% — Median Shrink

Health Insurance Costs

Average Percent of Sales	**1.58%**
Average Health Insurance Expense	**$198,168.98**
Median Health Insurance Expense	**$47,754.00**

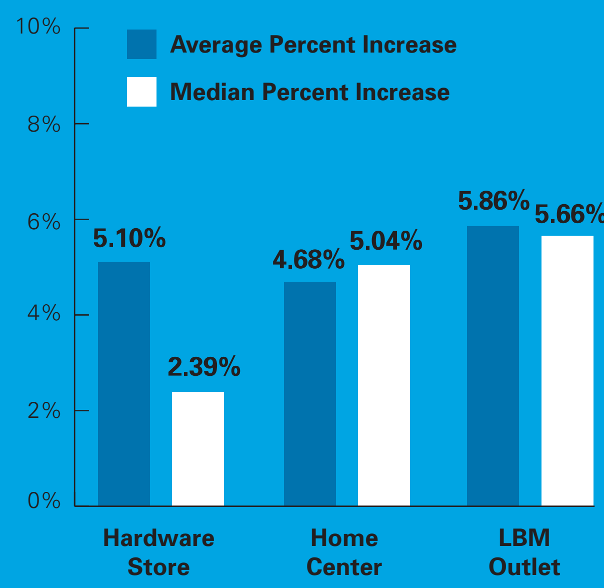
Capital Expenditures

Average Expense	**$276,864.32**
Median Expense	**$31,707.54**

Credit Card Fees

Average Credit Card Fees	**$120,242.50**
Average Fees Percent of Sales	**1.22%**

Total Sales Increases (Year Over Year)



This section is based on 483 survey respondents to the Hot Topics Section of the 2019 Cost of Doing Business Study. *The sample size represents approximately 43 percent of all companies responding to the survey.*

Source: 2019 Cost of Doing Business Study

Overall 2018 Business Performance

The following data from the *2019 Cost of Doing Business Study* is divided into three sections so retailers can compare their businesses' performance with home improvement operations similar to theirs. NRHA divides the numbers by three types of retail outlets—hardware stores, home centers and lumberyards. The complete study, which also includes financial overviews of U.S. paint stores, is available at **nrha.org** and is free to study participants.

Hardware Stores

Overall, 2018 appears to have been a strong year for hardware stores, which reported the highest-ever sales per location with an average of $2,193,172. This record-setting level enabled hardware store owners to achieve higher profits before taxes at 4.1 percent. In addition, ales per customer in 2018 rose to the highest level ever recorded at $24.

These higher profits were motivated by a range of factors, including trends like increased transaction sizes, customer counts which rose by 4.1 percent, and the highest inventory per square foot figure ever recorded.

Respondents to the *2019 Cost of Doing Business Study* seemed to wring additional profit by utilizing better expense controls than in previous study iterations. The average payroll expense was the lowest level reported in more than two decades, and the average occupancy cost of 6.6 percent was the lowest figure in a decade.

It appears gross margin impeded overall profitability. The typical hardware store experienced a decline of 160 basis points from the previous year. This year's gross margin after rebate was the lowest level for hardware stores since 2001.

Home Centers

Home centers showed remarkable stability in key performance indicators year over year, with a trio of encouraging developments.

The average home center recorded sales per location of $3.6 million, one of the highest figures of the last decade. For respondents who submitted data for both 2017 and 2018, revenue rose by 6.4 percent.

In addition, all home center respondents saw some of the highest average sales of the past decade. Furthermore, the average home center reported some of the highest customer counts since 2011.

The average cost of payroll for hardware stores was 20.4 percent of sales, which was the lowest level owners reported to NRHA in more than two decades.

While sales for this group were up, the average profit before taxes was down 20 basis points from the prior year, dropping to 2.9 percent.

To understand why higher sales would be accompanied by lower profits for the average respondent, it's important to consider total operating costs were up to 32.3 percent, the highest figure in the past three years.

Lumberyards

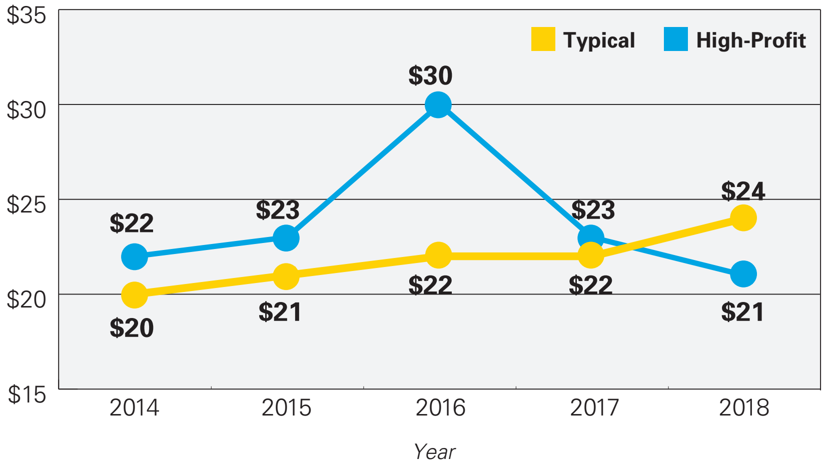
Lumberyards that participated in the most current *Cost of Doing Business Study* report all-time highs in several critical metrics: sales per store, inventory turnover, GMROI, sales per square foot, gross margin per square foot, inventory per square foot and sales per employee.

These higher sales could be attributed to a number of factors. One reason may be because lumberyard reported their highest customer counts since 2014 at 45,939 shoppers in total. It is also important to note the number of lumberyards participating in the *Cost of Doing Business Study* has a major effect on annual results.

Lumberyard operators who offered data for both 2017 and 2018 saw sales increase by 9.8 percent on average. However, overall profitability was eroded by a drop in average net profit to 3 percent in 2018, down from last year's figure of 3.8 percent. This loss is partly explained by the uptick in average payroll expense reported from respondents at 16.2 percent, the highest figure since 2013.

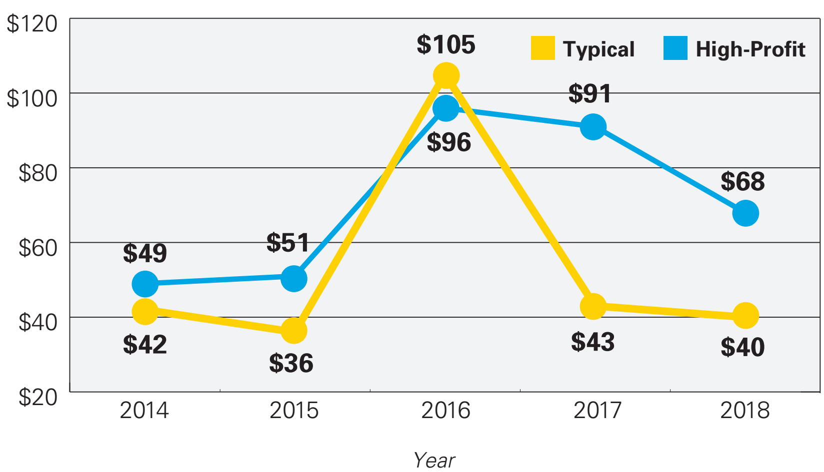
Hardware Stores

Median Sales Per Customer



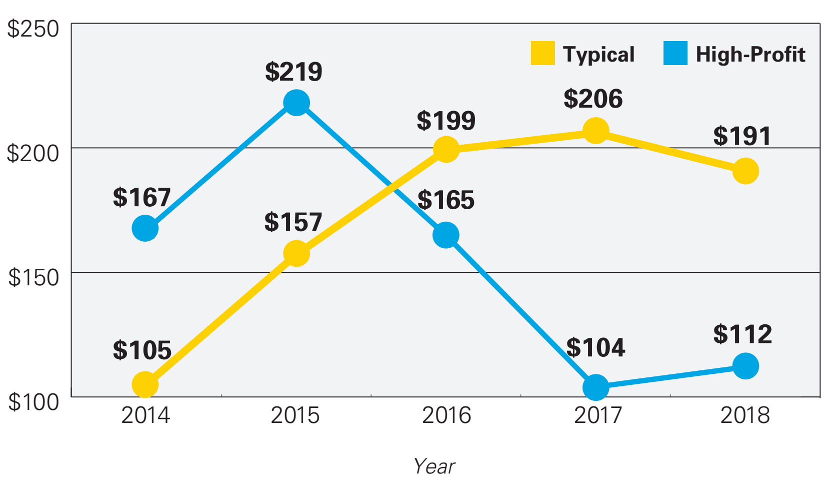
Home Centers

Median Sales Per Customer



Lumberyards

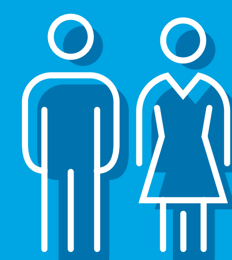
Median Sales Per Customer



Source: 2019 Cost of Doing Business Study

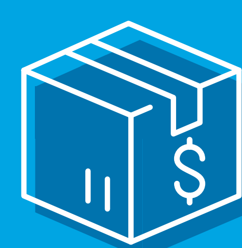
Hardware Stores

The highest ever overall average sales per location: $2.2 million



Home Centers

89,029 transactions—some of the highest customer counts since 2011



Lumberyards

The highest gross margin return on investment (GMROI) ever recorded: 238.1 percent

Leading Publicly Held DIY Chains 2018

Home Depot remains the biggest player in the home improvement industry in North America. Both Home Depot and Lowe's have now seen 10 consecutive years of sales growth, despite a dip in sales in 2008 due to the recession and lingering economic pressure in the years following.

	Home Depot	Lowe's Cos.
Operating and Productivity Profile		
Number of Stores (at end of 2018)	2,287*	2,015*
Average Size of Selling Area (sq. ft.)	104,000	112,000
Total Sales	$108.2 billion	$71.3 billion
Total Asset Investment	$44.0 billion	$34.5 billion
Total Inventory	$13.9 billion	$12.6 billion
Sales Per Square Foot	$446.86	$341.15
Inventory Turnover	5.1x	3.9x
Net Sales to Inventory	7.8x	5.7x
Total Sales Per Employee	$261,985	$291,020
Average Size of Transaction	$65.74	$75.79
Gross Margin Return on Inventory	267.6%	182.4%
Income Statement		
Cost of Goods Sold	65.7%	67.9%
Gross Margin	34.3%	32.1%
Net Sales	**100.0%**	**100.0%**
Total Operating Expenses	20.0%	26.5%
Net Income (Before Taxes)	13.5%	4.8%
Balance Sheet		
Cash	4.1%	1.5%
Receivables	4.3%	0.6%
Inventory	31.6%	36.4%
Other	1.9%	2.7%
Total Current Assets	**42.0%**	**41.2%**
Fixed Assets	58.0%	58.8%
Total Assets	**100.0%**	**100.0%**
Current Liabilities	38.0%	42.0%
Long-Term Liabilities	66.3%	47.4%
Net Worth	-4.3%	16.3%
Total Liabilities and Net Worth	**100.0%**	**100.0%**

Source: Home Depot and Lowe's annual reports; highlighted lines added by Hardware Retailing *represent totals of preceding lines*
**Figure represents companies' total store count in the U.S. and other countries.*

Top 4 Distributors

For the past five years, the four largest independent home improvement distributors have experienced sales growth. In April 2018, True Value transitioned away from a co-op model to become a privately held company. As such, the company no longer discloses financial information.

	Ace Hardware Corp.	Do it Best Corp.	Orgill Inc.	True Value Co.
Number of Distribution Centers	17*	8	7	13
Current Number of Stores Served	5,298	3,800	N/A	4,500+
Dollar Volume Most Recent Fiscal Year	$5.7 billion	$3.5 billion**	$2.5 billion	N/A
% Sales Out of Warehouse	80.0%	32.0%	N/A	N/A
% Sales Direct-Drop Ship	20.0%	68.0%	N/A	N/A
% Sales in LBM	0.0%	24.0%	N/A	N/A
Number of Employees	8,700	1,528	N/A	2,500
Avg. Number of SKUs in Warehouse	117,000	67,000	N/A	90,000
Sales/Inventory Ratio for 2018	6.1	11.9	N/A	N/A
2018 Member Rebate Distributed	$141.8 million	$114 million	N/A	N/A
% Cash	40.0%	77.0%	N/A	N/A
% Stock	34.0%	23.0%	N/A	N/A
% Other	26.0%	0.0%	N/A	N/A

Sources: NRHA distributor surveys

**17 domestic and 13 international. **Fiscal year ended June 29, 2019.*

N/A in this chart represents data the companies did not provide.

Wholesaling Merchandising Groups

PRO Group Inc. is the only one of the major wholesaling merchandising groups that has seen significant growth in the past five years. Its merger with Reliable Distributors in 2016 grew its wholesaler membership, number of distribution centers and dollar volume. In 2014, PRO had 29 members, 41 member-operated distribution centers and a dollar volume of $3 billion.

	PRO Group Inc.	Distribution America	Val-Test Group
Current Number of Wholesale Members	79	8	55
Number of Member-Operated Distribution Centers	150+	9	55
Dollar Volume for 2018 Fiscal Year	$6 billion	$1 billion	$650 million
Estimated Dollar Volume Calendar 2019	$6 billion	$1 billion	$600 million
Number of Retail Stores Served by Members	35,000	9,000	1,500
Number of Program Stores	800	1,500	100
Number of Employees	17	10	4

Sources: NRHA distributor surveys

A 2019 Retrospective

From new store openings to investments in supply chains and e-commerce, one of the major trends of 2019 was an increased focus on making life easy for customers.

Review some of the top headlines *Hardware Retailing* captured from the past 12 months and read each story in full at **TheRedT.com/2019-news**.

December (2018)	**True Value and Carter Lumber Announce Partnership** Carter Lumber's 140-plus locations in 12 states now have access to True Value's suite of products, support services and industry knowledge.
January	**Hardware Distribution Warehouses Closes Distribution Facilities** On Jan. 4, Hardware Distribution Warehouses announced the closure of its warehouses in Texas and Mississippi. The company previously served more than 2,000 retailers across the southern U.S.
February	**Orgill, Unilog Announce New E-Commerce Offering** Orgill and its e-commerce partner Unilog collaborated on a promotional e-commerce program, which enabled Orgill customers to establish e-commerce presence quickly at a monthly rate.
March	**House-Hasson Invests $10M in Inventory, Warehouse Expansion** After purchasing inventory from HDW and hiring several of its salespeople, House-Hasson began a 10,000-square-foot expansion of its warehouse in Knoxville, Tennessee.
April	**Ace Hardware Begins E-Commerce Delivery Service** Ace Hardware introduced a "buy online, deliver from store" program and said it was an important component of its overall e-commerce strategy.
May	**Do it Best Names New Director of International Sales** In his new role, industry veteran Scott Sproul will lead a team of international sales professionals serving hardware retailers in more than 50 countries. Sproul has worked for Do it Best since 1999.
June	**Orgill Announces Plans for New York Distribution Center** The 780,000-square-foot distribution center in Rome, New York, will be the company's eighth distribution center. The facility will service customers in seven states in the Northeast.
July	**Ace Names Benjamin Moore Its Preferred Paint Supplier** The partnership will make Benjamin Moore paints more widely available to DIY customers in Ace stores beginning in spring 2020. Benjamin Moore will also manufacture Ace's private-label paint brands.
August	**Lowe's Lays Off Thousands of Employees** The big-box company, which is headquartered in Mooresville, North Carolina, announced the elimination of thousands of positions, including many maintenance and assembly workers.
September	**Ace Acquires Home Repair Franchise** The company, which will be known as Ace Handyman Services, will provide basic improvement and repair services to residential and commercial customers.
October	**United Hardware Names New CEO** Douglas Audette will replace retiring president and CEO Steve Draeger. Audette has 30 years of experience in retail merchandising, category management and wholesale distribution.
November	**True Value Confirms Opening of New Distribution Center** The 1 million-square-foot facility in Wilkes-Barre, Pennsylvania, will coordinate with New Hampshire and Ohio facilities. The three centers will serve roughly 40 percent of True Value's overall customer base.

February

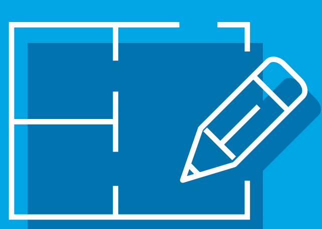
Amazon Changes HQ2

Due to pressure from residents and politicians, the company pulled its plan for a second headquarters in Queens, New York.

March

Target Sets New Climate Goals

By 2030, Target aims to lower its greenhouse gas emissions by 30 percent from 2017 levels.



May

Ace Expands Texas DC

The upcoming expansion will add more than 450,000 square feet to the existing 450,00-square-foot facility.

August

FedEx Ends Amazon Contract

The delivery service provider says it plans "to focus on the broader e-commerce market."

September

Do it Best Launches New Website

The new site serves as an informational hub for current and prospective members, prospective employees, vendors and the public.

November

Sears to Close Nearly 100 More Stores

The closures will leave the retail company with less than 200 locations.

Looking at 2019 Housing Trends and Beyond

Gay Cororaton, a senior economist with the National Association of Realtors, offered *Hardware Retailing* magazine insight on the housing market in 2019 and also shared her expectations for 2020.

Hardware Retailing: What key trends are you seeing in the current housing market?

Gay Cororaton (GC): Existing home sales have rebounded in the metro areas. The pending contracts indicator also rebounded across all markets. Essentially, the low mortgage rates are helping in the recovery of the housing market.

Moving forward, I think that will continue to be the case, although the housing shortage is always a roadblock. We expect to see modest growth in existing home sales. Based on the most recent indicator, we're now looking at slight growth of 0.6 percent in existing home sales in 2019 and about 3 percent growth in 2020. Sales had dropped on a year-over-year basis for most of the first part of 2019, but with lower mortgage rates, we saw a rebound. Mortgage rates have gone down again to a very low level—about 3.6 percent—and that should provide a lift to home sales.

HR: Is real estate a key area of growth for future economic expansion?

GC: Yes. If you look at other indicators, there's a dip in investor confidence. But with housing, you have a boost coming from millennials and from low mortgage rates, so housing will provide support for economic growth. Consumers are still spending and they still have positive expectations because job growth is so strong. Housing will continue to provide an economic boost within the next 10 years as millennials form their own households and are able to work out their student debt issues over time because they will be moving up the income ladder.

HR: How is the remodeling market doing?

GC: Remodeling has very bright potential and that's because of baby boomers who are aging and want to age in place. They want accommodations for growing older, such as wider doorways.

We're also seeing the length of time homeowners live in their houses increasing. It used to be that people moved every seven years and now we're seeing them move in 10 years. Perhaps some people will buy a house and never move. If you're making a place your forever home or you're staying longer, you'll want to be making improvements to accommodate your life changes. You may want to have an additional patio as the kids grow older or maybe add on an extra bedroom as you have more kids. All of those factors provide a positive outlook for remodeling.

"We're still going to see a continued increase in home prices and we're looking at about a 3 percent price appreciation in 2020."

HR: Are there other reasons people are remodeling?

GC: If you want to sell your house, you do some remodeling so you can sell it for a higher price. For some people who are buying, especially for millennials, they want to buy a move-in ready house right away. If you're a seller, you want to remodel to make it more attractive for homebuyers and definitely homebuyers just want to get places that are move-in ready. Most people, when they sell their home, want to get as much as possible out of that sale, so they remodel to make it more attractive.

About 90 percent of homes being sold in the U.S. are existing homes. The supply that's out there is existing homes. New homes are more expensive than existing homes. In the end, buyers are making decisions based on price and if they think the remodeled house has the features that they want.

HR: What can we expect to see in the housing market in 2020?

GC: We're still seeing that low inventory is going to limit home sales, but we've seen some improvement also in labor. There is still a shortage of construction workers and the fact that the labor market is becoming tighter, so we don't foresee a significant boost in home supply. We're still going to see a continued increase in home prices and we're looking at about a 3 percent price appreciation in 2020.

Incomes are also rising. The thing is, the labor market is tightening, so there's a lower unemployment rate right now and wages are increasing. Wages have actually been rising at a rate of about 3 percent and that's close to the 3 percent home price appreciation. Homes overall have become more affordable because of the wage growth. Prices will continue rising, but wage growth is also rising. Housing will be a pillar of growth for the economy in 2020. Just because of the low mortgage rates and the fact that the labor market has tightened, and assuming we don't go into a severe economic downturn, wage growth will help compensate for home price growth. The natural progression of millennials forming households as they grow older and advance in their careers contributes to housing market growth as well.

Gay Cororaton is senior economist and the director of housing and commercial research at the research group for the National Association of Realtors. She manages the production and delivery of the trade association's proprietary housing statistics and other research.

Insight Into Economic Concerns of 2019

To better understand the factors influencing the U.S. and global economies, *Hardware Retailing* spoke to Frank Steemers, associate economist of The Conference Board, a research association that monitors how trade, manufacturing, retail and other factors shape economic conditions.

Learn Steemers' perspective on 2019's prevailing economic trends and what your business can do to anticipate future economic shifts.

Hardware Retailing (HR): What are some of the biggest economic trends The Conference Board has observed in 2019?

Frank Steemers (FS): Last year (2018) was an especially strong year for economic growth, but about a year ago there were many stock market sell-offs, which prompted some fears that we were at the end of a strong global economic cycle. I think most of these fears were overblown, but we have seen some market volatility.

With 2018 being an especially strong year for economic and employment growth, we expected 2019 would see a gradual slowdown and that is what occurred. We've also seen that slowdown in the global economy, which has affected the U.S. economy. Albeit slower than in 2018, growth in 2019 has been solid so far but it's more around its long-term potential of 2 percent.

We see a very healthy labor market—employment growth is still strong. One of the major trends we've observed is that employers who hire blue collar workers are having a hard time finding qualified workers, putting pressure on them to raise wages which may ultimately affect profits.

HR: Your organization releases the monthly Consumer Confidence Index. What did that reveal about the U.S. economy?

FS: At the end of 2018, we saw a very big decline related to the big stock market sell-off that caught the attention of a lot of people, but these fears faded away relatively quickly. While we see some volatility, compared to historical averages, the index is especially high at the moment. With a strong labor market, we see that disposable incomes and consumption spending are rising. So it's clear that at the moment the consumer is driving economic growth in the U.S.

HR: Has your organization taken note of any specific retail trends that have stood out to you in 2019?

FS: It's no surprise that the retail industry has been through a lot of changes over the last couple of years. We've seen negative growth in retail employment since 2017, and that continued through 2019 as well.

On the other hand, businesses related to housing may have also benefitted, like home improvement stores with garden centers. Part of the improvements in the housing sector are related to a decline in mortgage interest rates. Lower interest rates provide some incentive to start looking for a home, which means that there is more demand for home goods and services.

> **"Small business owners should be aware that the labor market will continue to tighten and they must prepare their businesses with that in mind."**

HR: How have tariffs and overseas trade tensions affected the U.S. economy in 2019?

FS: When we talk about the consumer being optimistic, we also see a big divergence that started this year with businesses actually being much less confident about the U.S. economy. Part of this is related to a global economic slowdown which has especially impacted manufacturing.

We know that tariffs raise prices and businesses must decide whether to pass them along to consumers. I think the biggest economic effect from tariffs is the uncertainty they have created. Tariffs have weakened business confidence and that's something we see when we review our CEO Confidence Index and other metrics of business sentiment.

HR: What economic forces do you believe independent retailers should pay attention to in 2020?

FS: The Conference Board doesn't currently forecast a recession in 2020, but it is important to note that forecasting such a thing in advance with any degree of certainty is very difficult.

We expect the economy is only slowing down at the moment. In 2018, we saw economic growth at 3 percent. In 2020, we expect growth will fall to 2 percent, which is still a very solid figure.

I think small business owners should be aware that the labor market will continue to tighten and they must prepare their businesses with that in mind. With the current unemployment rate as low as it was in the late 1960s, retailers should expect job applicants to have more bargaining power and it will become more difficult for employers to find qualified workers.

Frank Steemers is an associate economist at The Conference Board where he analyzes the labor market and the overall economy in the U.S. and other mature economies. Steemers is one of the primary researchers of The Conference Board's wage, population and labor shortages models.

Canadian Retailers Can Expect Moderate Growth

Provided by Michael McLarney, president of Hardlines Inc.

While the Canadian home improvement market saw weaker growth in 2018 than in the previous year, it still grew more than expected. And the forecast for 2019 remains cautiously optimistic, despite another slow start to the year, according to the *2019 Hardlines Retail Report*.

The report estimates that the industry is expected to benefit from a stabilization of the real estate market, as interest rates remain low and the industry adapts to tougher mortgage rules. These factors will help drive the all-important renovation and repair markets, both factors which outweigh new housing as a driver for retail sales in this sector.

By the end of 2019, the Canadian market should see some increases, but will fall short of the growth seen in 2018.

Overall, the report estimates the total industry size to be just under $50 billion for 2018 and anticipates the end of 2019 will see the numbers rise to about $51.7 billion, a growth of 3.2 percent. Looking further out, the Canadian industry is forecast to regain some momentum in 2020 and 2021, with real growth being realized as commodity prices stabilize and sales volumes recover, with projections of $53.7 billion and $56.4 billion.

The Retail Report also includes the results of a retailer survey conducted by Hardlines, which revealed widespread concern that sales would not rise enough through the remainder of the current year to generate positive sales growth. This concern was shared by retailers across the country.

Growth by Region

Growth across the country continues to vary widely by region. Prince Edward Island led all provinces in growth. However, its small size—representing less than 1 percent of the overall market in Canada—was not enough to lift sales overall.

On a regional basis, in 2018, the West tracked well below the industry average of 3.8 percent growth with an increase of only 1.9 percent. The slower growth was seen most prominently in Alberta and Saskatchewan. However, British Columbia experienced strong growth, seeing an increase of 4.2 percent—ahead of the industry average.

Atlantic Canada showed steadier growth than the West, but at 2.9 percent, overall sales were still below the industry average, with Prince Edward Island as the one exception.

The greatest share of the retail home improvement market still resides in the provinces of Ontario and Quebec. Together, they represent almost 57 percent of the Canadian market, and the retailers Hardlines surveyed in central Canada were fairly optimistic about opportunities for growth continuing through 2019 and into the near future.

However, the growth seen in 2018 includes an inflation rate of 2.4 percent for Canada, as well as large price increases in commodity products realized through most of last year, which tempered some of the growth seen across the country.

Growth by Store Type

The report found that building centers proved to be the best format for weathering tough variable business conditions, with growth of almost 6 percent for 2018, driven by a solid renovation market and by healthy increases in key commodities such as lumber, plywood and insulation.

Comparatively, hardware stores as a sector saw a negative net growth of 6 percent, following a slight gain of 1.4 percent from the year before. Overall market share of hardware stores likewise declined, to 6.6 percent of total retail sales in the industry, down from 7.3 percent in 2017.

However, there's no indication that individual hardware retailers are suffering. In fact, Hardlines believes these declines reflect a trend by banners to support their retailers to expand from hardware stores into full-line building centers, with the addition of lumber and building materials. This is based on the fact that the positive growth enjoyed by existing hardware retailers is not enough to register overall growth for the segment, as the overall number of stores declines.

Gains by big boxes were below the industry average, as analysts expect some stores were vulnerable to the slowdown in the renovation market in some regions, and the falloff of business in Western markets. The gains they did experience came mostly from same-store sales, as Home Depot has not been opening new stores in Canada and Lowe's Canada has slowed expansion of its big boxes.

Market Share by Store Format

47.2% Building Centers

25.2% Big Boxes

12.2% Canadian Tire*

6.6% Hardware Stores

4.8% Club Stores*

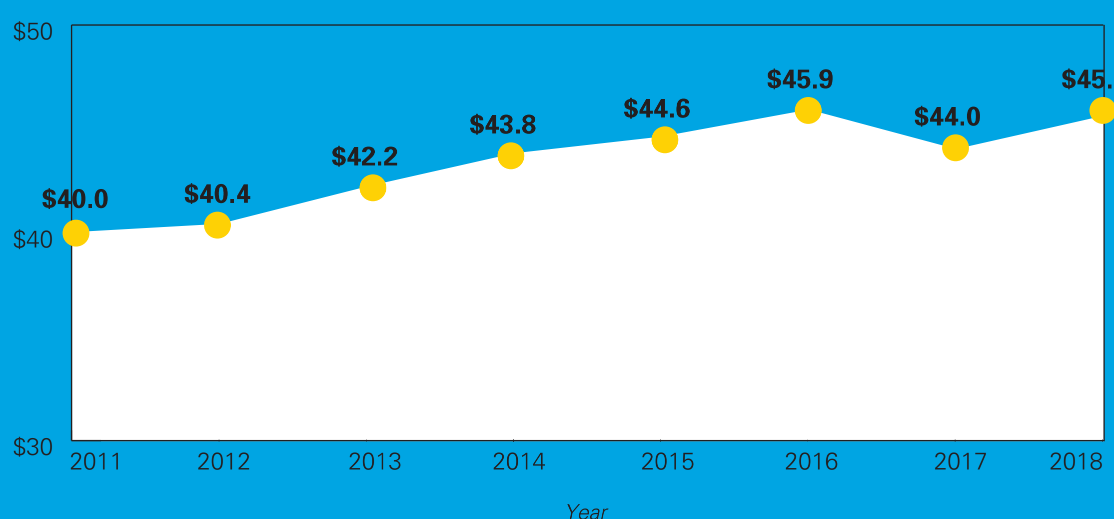
4.0% Mass Merchants*

Hardware and home improvement stores only

Top 10 Home Improvement Retailers

Rank	Company	2017 Sales (in billions)	2018 Sales (in billions)	Percentage Change
1	Home Depot Canada	$8.2	$8.5	4.0%
2	Lowe's Canada	$7.2	$7.4	2.2%
3	Home Hardware Stores	$6.4	$6.6	3.4%
4	Canadian Tire Retail	$5.9	$6.1	3.4%
5	ILDC	$3.9	$4.0	2.3%
6	TIMBER MART	$2.9	$3.2	8.1%
7	Sexton Group	$2.1	$2.4	14.7%
8	Castle Building Centres	$2.1	$2.2	8.4%
9	Groupe BMR	$1.2	$1.3	4.8%
10	Kent Building Materials	$0.9	$0.9	2.5%

Home Improvement Industry Sales Growth
(in billions)



Source: 2019 Hardlines Retail Report, *Estimated related hardware, decor and home improvement sales only.*