

# Market Briefing

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## RETAIL

### Retail Sales Fall 1.1%

#### The Home Depot

- Q2 sales rose 8.1% to \$41.1 billion and comp sales rose 4.5%.
- Comp sales in the US rose 3.4%
- Q2 conference call with analysts

#### Lowe's

- Q2 sales rose 21% to \$27.6 billion Comp sales fell 1.6% overall and 2.2% in the US.
- Q2 conference call with analysts

#### Walmart

- Q2 sales rose 2.4% to \$141.05 billion and US comp sales rose 5.2%

#### Ace Hardware

- Q2 revenue rose 8.2% to \$187.8 million. US retail comp sales rose 1.2%

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Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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## US ECONOMY

### Exchange Rates August 31, 2021

<b>Euro</b>	1 Euro = \$1.180	\$1.00 = 0.848 Euros
<b>Canadian Dollar</b>	1 CAD = \$0.792	\$1.00 = 1.263 CAD
<b>Japanese Yen</b>	1 Yen = \$0.009	\$1.00 = 110.056 Yen
<b>Chinese Yuan</b>	1 Yuan = \$0.155	\$1.00 = 6.461 Yuan
<b>Mexican Peso</b>	1 Peso = \$0.050	\$1.00 = 20.080 Pesos

### Market Watch August 31, 2021

<b>DOW</b>	35,358	+1.2%
<b>NASDAQ</b>	15,260	+4.0%
<b>S&amp;P 500</b>	4,523	+2.9%

August is typically a quiet month for the markets, but all three indexes hit mid-month highs before falling back slightly. The strong economic recovery, solid corporate earnings and reassurances from the Fed that interest rates would remain low all contributed to gains. There is some concern about the impact of the Delta variant on consumer spending patterns if people begin to restrict travel and activities once again.

### Consumer Spending Rises 0.3%

**Consumer spending rose 0.3% in July** after rising an upwardly revised 1.1% in June. The increase reflected a 1.0% rise in spending on services and a big drop in spending on durable goods such as autos in addition to a drop in spending on nondurable goods such as clothing. Personal incomes rose 1.1% in July after inching up just 0.1% in June. The personal saving rate rose sharply to 9.6% of after-tax incomes in July. Economists estimate that the excess savings of households now totals around \$2.5 trillion, giving consumers plenty of spare cash to fuel future spending.

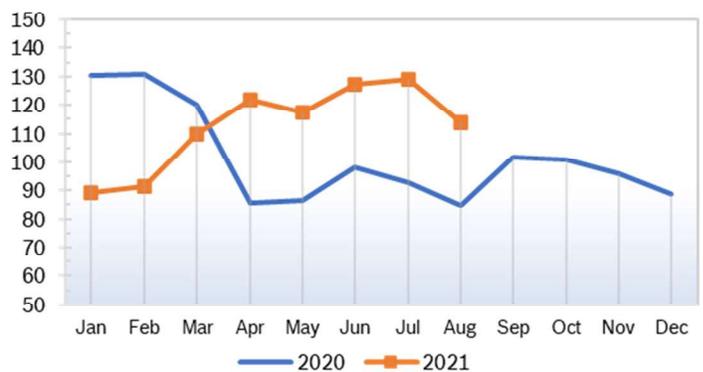
### Consumer Prices Rise 0.5%

**The Consumer Price Index (CPI) rose 0.5% in July** after rising 0.9% in June and was up 5.4% year over year. Core inflation, which excludes the volatile food and energy categories, rose 0.3% in July after rising an upwardly revised 0.9% in June and

was up 4.3% from July 2020, cooling a bit from June's 4.5% pace. Many economists now believe that June marked the peak in the annual rate of inflation. However, they also concur that price increases stemming from the reopening of the economy and ongoing supply chain bottlenecks and shortages will keep inflation elevated into 2022. The personal consumption expenditures (PCE) price index excluding the volatile food and energy components rose 0.4% in July for the second consecutive month and was up 4.2% year over year, the largest gain since April 1992. The core PCE price index is the Fed's preferred inflation measure for its 2% target, which is now a flexible average. The Fed believes inflation is transitory and is focused on the employment situation.

### Consumer Confidence Falls to 113.8

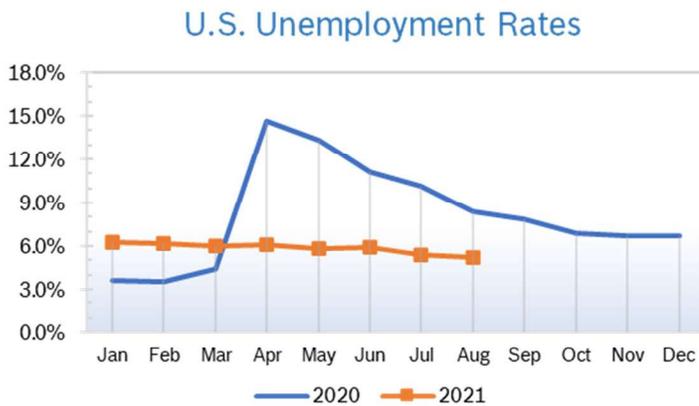
Consumer Confidence Index



- ▶ The New York-based Conference Board's Consumer Confidence Index fell to 113.8 in August after rising to a downwardly revised 125.1 in July.\*
- ▶ The Present Situation Index, which is based on consumers' assessment of current business conditions, fell to 147.3 from 157.2 in July.
- ▶ Expectations for the next six months fell to 91.4 from 103.8 in July.
- ▶ Consumer confidence was at the highest level since February 2020. Confidence plummeted to 86.9 at the onset of the pandemic in March 2020.

\*A level of 90 indicates that the economy is on solid footing; a level of 100 or more indicates growth. Analysts caution that the real driver behind consumer spending is income growth and that labor market trends are a more accurate predictor of consumer behavior.

## Unemployment Falls to 5.2%



- ▶ The unemployment rate fell to 5.2% in August after falling to 5.4% in July but the economy added just 235,000 new jobs, well below expectations of a 750,000 job gain.\*
- ▶ The steep drop in job growth raised alarms about the impact of the Delta variant on the recovering economy.
- ▶ Employment in leisure and hospitality remained steady, but is still down 1.7 million jobs from its pre-pandemic peak.
- ▶ Employment in retail fell by 29,000, with steep declines in grocery and building material and garden supply stores.
- ▶ Construction payrolls fell for the fourth month, but construction employment rose in 75% of metro areas, dropped in 15% and was unchanged in 36, according to the BLS.

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

## Job Openings Set New Record

**US job openings soared to yet another record high** of 10.1 million jobs in June after inching up to 9.2 million jobs in May and employers filled 700,000 jobs, according to the latest Job Openings and Labor Turnover Survey (JOLTS) from the US Bureau of Labor Statistics (BLS). It was the highest number of job openings on record and up substantially from the pandemic low of under 5 million jobs. Vacancies increased in all four regions and the job openings rate rose to 6.5% from 6.1%, with just 0.9 workers available for every job opening and employers had trouble filling vacancies. The largest increases in vacancies in June were in professional and business services, retail trade and accommodation and food services. Hiring rose to 6.7 million

in June from 6.0 million in May, the second largest increase since the government started tracking the series in 2000. The rise in hiring in June was led by retail trade, with 291,000 more positions filled. The number of people quitting their jobs in June increased to 3.9 million from 3.6 million in May, well above pre-pandemic levels. The quits rate is seen as a barometer of job market confidence, and in June quits were up in all but five of the 21 private industry sectors in the report. 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 66.8

**The Chicago Purchasing Managers Index (Chicago PMI) fell to 66.8 in August** after jumping to 73.4 in July. It was the lowest reading for the index since June and the 14th consecutive month the index remained in positive territory. Production dropped sharply to 61 and New Orders fell 4.4 points to 67.8, which ISM believed to be due to falling demand. Prices Paid increased 2.3 points to 93.9, hitting the highest level since 1979 as companies continued to grapple with higher costs for materials. The special question for the month asked when respondents believed the pandemic's impact on the supply chain would peak. A majority (37.8%) believed it would peak in 2022. Looking back to when the series began in 1967, the PMI has ranged from 20.7 in June 1980 to 81.0 in November 1973.

## Wholesale Prices Rise 1.0%

**The Producer Price Index rose 1.0% in July**, matching June's increase. Both increases were above expectations. It was the seventh consecutive monthly increase in wholesale prices, which are up a record 7.8% over the past twelve months. Core inflation, which excludes the volatile food and energy categories, rose 1.0% in July, double the increase in June, and was up 6.2% over the past twelve months. Prices continue to be impacted by pandemic-driven shortages and bottlenecks as the economy got back on its feet much more quickly than expected. Analysts noted that year-over-year inflation numbers will consistently be higher going forward because of the year-over-year comparison to very low numbers caused by the pandemic.

## Q2 GDP Rises 6.6%

**GDP grew 6.6% in the second quarter, up slightly from the first reading** of 6.5% growth, according to the second reading from the Commerce Department. While robust, the increase was

well below economists' expectations of 9.1% growth. Many economists are downgrading their estimates for full-year growth from a red-hot 9.0% to a still brisk 6.1%. The big wild card in growth projections is the impact of the rapidly spreading Delta variant, which is difficult to project. The Fed's GDP forecast for this year was revised up to estimate growth between 6.5% to 7.0% in mid-June.

## Fed Reassures on Rates

**Fed Chair Jerome Powell reassured markets that interest rates will not be rising any time soon**, although the Fed will probably start dialing back the \$120 billion in bond purchases made each month later in the year. Investors have been waiting for concrete information for several weeks. This year's Jackson Hole Policy Summit was once again a virtual one.

## HOUSING & CONSTRUCTION

### Builder Confidence Falls to 75

**Builder confidence fell five points to 75 in August** after slipping to 80 in July, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). The index had been above 80 for ten consecutive months. Builders are grappling with supply shortages, rising prices and long waits for materials. In addition, rising prices for materials are inflating the price of a new home, creating sticker shock and sending many buyers to the sidelines. The HMI index gauging current sales conditions fell five points to 81 and the component measuring traffic of prospective buyers fell five-points to 60. The gauge charting sales expectations in the next six months held steady at 81. Regional scores declined in all regions for the first time in eight months. Any number over 50 indicates that more builders view the component as good than view it as poor.

### Building Permits Fall 5.1%

**Overall building permits fell 5.1% in July** to a 1.53-million-unit annualized pace after dropping to 1.60 million units in June. **Single-family permits dropped 4.5% in July.** Multifamily permits plunged 13.1% to an annual rate of 413,000 units after dropping in June. NAHB notes that permits have been falling because builders are slowing construction due to higher costs for materials and continuing shortages of labor and supplies. Regional permits were up on a year-to-date basis.

### Housing Starts Fall 7.0%

**Housing starts fell 7.0% in July** to a seasonally adjusted annual rate of 1.53 million homes after rising to 1.64 million units in June. Single-family starts fell 4.5% to a seasonally adjusted annual rate of 1.11 million units after rising to 1.16 million units in June. The multifamily sector, which includes apartment buildings and condos, dropped 13.1% to 423,000 units after rising to 483,000 units in June. Combined single-family and multifamily regional starts were up year to date compared to 2020. The drop in starts reflects the drop in builder confidence as builders grapple with shortages of materials and labor and production bottlenecks. Single-family starts are still expected to rise this year, but at a much slower pace than they did during 2020.

### New Home Sales Rise 1.0%

**New home sales rose 1.0% in July** to a seasonally adjusted annual rate of 708,000 homes after June sales were upwardly revised. Inventory continued to remain at a more normalized level of 6.2 months after spending many months at historic lows. Nevertheless, inventory is 26.1% lower than it was in July 2020. While inventory is rising, as of July 2021, 29% of new home inventory consisted of homes not yet under construction, compared to 20% a year ago. The median sales price was \$390,500, up 18.4% from a year earlier, due to higher development costs, including materials. Year-over-year sales were up in all regions. NAHB cautioned that the big jump in year-over-year sales is due to the big slowdown in sales during the initial stages of the pandemic. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously owned homes, which are calculated when a contract closes.

### Existing Home Sales Rise 2.0%

**Existing home sales rose 2.0% in July** to a seasonally adjusted annual rate of 5.99 million units after rising to an upwardly revised 5.87 million units in June, according to the National Association of Realtors. The median price of a home sold in July fell slightly to \$359,900 from \$362,800 in June. Prices are still up 17.8% on a year-over-year basis, which marks some improvement from earlier this year when prices were up a record 23.6%. Total inventories have risen for five consecutive months, but much of the activity is occurring in the upper end of the market. There is still a shortage of starter homes, and inventory remains at a low 2.6-month supply. It was the 113th monthly increase in year-over-year prices. Regional sales were mixed.

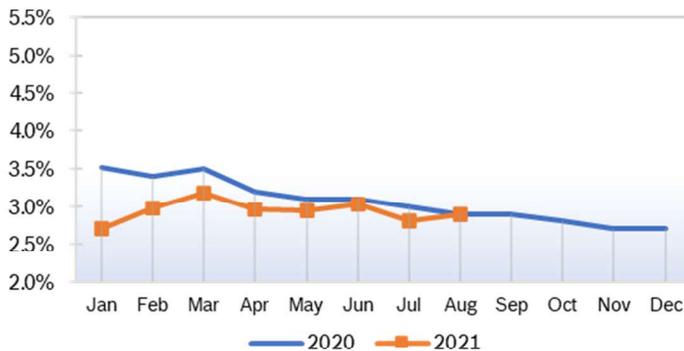
## Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence*	74 (-1)	82 (-3)	68 (-2)	85 (-2)
Building Permits YTD	24.9%	25.9%	23.0%	28.2%
Housing Starts Y/Y	41.4%	21.5%	25.5%	28.0%
New Home Sales*	+19.4%	+15.6%	+33.5%	+4.1%
Existing Home Sales*	UC**	+1.2%	+3.8%	+3.3%

\* Year over Year \*\*unchanged

## Mortgage Rates Remain Low

### 30-Year Fixed-Rate Mortgage



- ▶ 30-year fixed-rate mortgage rates (FRM) rose to 2.9% at the end of August after falling to 2.8% at the end of July. Mortgage rates were 2.9% at the end of July 2020.
- ▶ Rising home prices driven by high demand, low inventory and soaring prices for lumber are limiting how competitive prospective home owners can be.
- ▶ Rates have generally been below 3.0% for the past several weeks. Fannie Mae still expects rates to rise gradually in the second half of the year.
- ▶ Analysts caution that low inventories and rising home prices are making it difficult for potential buyers to find a home.

## POWER TOOL INDUSTRY

### Robert Bosch Tool Corporation

**Bosch’s RefinemySite digitizes components of the last planner system**, a lean construction production planning and control process designed to produce predictable workflows and rapid learning in the planning, design, construction and commissioning of projects. RefinemySite will create and share visual information in real time onsite or with employees working remotely.

**Bosch Bluehound helps eliminate the problems caused by lost or misplaced tools.** It uses Bluetooth tags and a cloud-based platform to gather data on tagged equipment with minimal work needed by users. The digital asset management tags give the user asset location history, operational status, deliveries, maintenance records and documentation which is readily accessible by workers, supervisors, auditors and construction executives.

### Stanley Black & Decker

**SB&D is requiring US employees to wear masks regardless of vaccination status** but will not mandate vaccinations for fear workers might quit or strike, according to CFO Don Allan. Allan said the recent surge in cases due to the Delta variant has made it clear the pandemic is not behind us. SB&D said they might introduce a vaccination requirement later; they are watching to see what other companies are doing. Now that the Pfizer vaccine has been approved for standard use, it will make it easier for both private companies and the government to mandate vaccination. SB&D operates vaccination centers in certain locations and brings in doctors to explain why vaccinations are safe. One such plant in Missouri went from a 20% vaccination rate to a 37% rate after hosting a program. SB&D is also capping the number of people allowed to work in offices, depending on location. SB&D also recently pushed back a pilot project to test new tools for hybrid work from August to September and also reduced the number of people participating in the test.

**SB&D agreed to acquire the remaining 80% stake in MTD Holdings for \$1.6 billion.** MTD generated revenue of \$2.5 billion in the last 12 months. Ohio-based MTD specializes in outdoor power equipment and utility vehicles.

**SB&D was named to Forbes' annual list of America's Best Employers for Women**, ranking fifth in the "Semiconductors, Electronics, Electrical Engineering, Technology Hardware & Equipment" category and #241 out of 300 companies overall. This is the second consecutive year SB&D made the list. SB&D was also named to Comparably's list of Best CEOs for Women and Best Leadership Teams. Mogul also recognized them as one of the Top 100 Workplaces with the Best D&I initiatives.

**SB&D was named to Fast Company's Best Workplaces for Innovators** for the second year in a row. They moved up 14 spots to No. 41 on the list of 100 companies. Industries evaluated included computer science, biotech, consumer packaged goods, nonprofits, financial services, education, cybersecurity and engineering. A panel of eight judges reviewed and scored 1,500 applications.

## TTI/Techtronics Industries

**First half sales grew 52.0%** to US\$6.4 billion. The TTI Power Equipment segment delivered sales growth of 55.3% to US\$5.8 billion. All geographies and business units contributed positive growth. Milwaukee Tools revenue grew 64.1% globally. RYOBI performed exceptionally well across all brands with solid double-digit growth in all categories and geographies.

## RETAIL

### Retail Sales Fall 1.1%

**Retail sales fell 1.1% in July** after rising an upwardly revised 0.7% in June. Sales were well below expectations. Retail sales were up 15.8% from July 2020 when pandemic restrictions impacted sales. It was the second drop in retail sales in three months, which may indicate that pent-up demand has passed its peak. Spending on services may have once again been curtailed by CV19 cases climbing among the unvaccinated. The rapid spread of the Delta variant has caused many restrictions to be reimposed. Falling vehicle sales due to shortages of both new and used vehicles contributed 0.9% to the overall decline. Online sales fell 3.9% in July after rising 1.2% month over month in June. Sales at building material stores fell 1.2% in July, the fourth consecutive month sales in this category have declined. Total sales at building materials stores are still 8% ahead of last year's \$35+ billion but lag the 16% year-over-year growth for

overall retail sales. The National Retail Federation forecast that 2021 retail sales will rise between 6.5% and 8.2%, which would beat the previous record growth rate of 6.3% in 2004.

## The Home Depot

**Q2 sales rose 8.1%** to \$41.1 billion and comp sales were up 4.5%. Comp sales in the US rose 3.4%.

### Q2 Conference Call with Analysts:

**Over the last six quarters they have grown their business by more than \$34 billion**, a level unmatched in their market. Fifteen of their 19 US regions posted positive comps compared to Q2 2020, and on a two-year stack basis, all regions had double-digit comp growth.

**Canada posted comps that were essentially flat** in local currency despite significant restrictions due to CV19.

**THD saw consumer patterns begin to change in the second quarter** as the economy reopened and people began to travel, eat out and enjoy other away-from-home activities that had been curtailed during the pandemic.

**Weekday sales have strengthened** and consumers are more comfortable taking on larger projects.

**Pro sales outpaced DIY sales** for the second consecutive quarter as consumers became more comfortable taking on larger projects.

**They are managing demand despite significant industry disruptions in supply chains** thanks to their leverage and strong partnerships with vendors. Their in-stocks are not where they would like them to be but have improved significantly from a year ago.

**They are focusing on trying to build depth in their best-selling SKUs** and in job-lot quantities for Pros, which means a heavy focus on building materials.

**Inventory at the end of the quarter was up \$5.4 billion** to \$18.9 billion and inventory turns were 5.7x compared to 6.1x during Q2 last year. They are trying to build inventory.

**Raw material shortages, production constraints and pressures across all modes of transportation** are creating a very challenging environment. Their supply chain teams recently arranged for exclusive use of several container vessels.

**Their goal is to grow faster than the market in any environment** and strengthen their position as the low-cost provider in home improvement.

**Ten of 14 merchandise departments posted positive comps.** They saw single-digit negative comps in paint, hardware and garden, all categories that out-performed during the second quarter of 2020. On a two-year stacked basis all departments posted healthy double-digits comps.

**It was a historic quarter for lumber volatility,** with prices for framing and panel lumber reaching all-time highs before quickly falling from their peaks. For example, framing lumber peaked at \$1,500 per 1,000 board feet, fell to \$500 per 1,000 board feet and is currently at about \$450. Regardless, average price during the quarter was significantly higher than during Q2 2020.

**Big ticket comp transactions over \$1,000 rose 24%** with strength across many Pro-heavy categories.

**Growth with larger Pros outpaced smaller Pros,** and larger Pros report their backlogs are long and growing. They saw that reflected in the strength of many kitchen and bath categories.

**Pros account for about 5% of their customer base and 45% of sales.** They are pleased with the growth of their Pro Extra loyalty program. All Pros who belong can now access their B2B Pro online experience. The B2B Pro website offers a wealth of member-exclusive benefits specifically designed for Pros, including the ability to track jobs, build and track quotes, reorder, track receipts and get preferred pricing in some instances.

**They are entering a new channel exclusive relationship with LP Building Solutions,** a top provider of OSB panel boards. This is similar to the partnership they forged with electrical boxes supplier Carlon. These partnerships are all about taking good care of their Pro customers.

**Digital sales were essentially flat** as they lapped digital sales growth of about 100% during Q2 2020. They are very pleased with their customers' digital engagement and know that the ma-

jority of customers engage across all channels. More than 55% of their online orders were fulfilled through the stores.

**They see a supportive environment for home improvement over the next several years,** although there is still a significant amount of near-term uncertainty related to the evolution of CV19 and the spreading variants.

**Long-term they feel confident that home improvement activity will continue to grow.** Home values in the US are up more than 20% over the past two years. When values rise, people are more inclined to spend money on improvements.

**They are very pleased with their MRO business and their acquisition of HD Supply.** The acquisition will give them the opportunity to serve the 50 million households in the multifamily market.

**They believe seasonal activity will be strong;** they did a sneak peek at Halloween and sold out almost immediately. They will set holiday décor in October.

**They are seeing the trend to trading up continue,** with people happy to pay more for better features. Lack of availability is somewhat curtailing the ability to trade up.

**Customers are now much more willing to substitute** if they can't find what they originally wanted; that trend is definitely being driven by the pandemic.

**Millennials are now actively engaged in housing.** Many undertook their first projects during pandemic restrictions that limited other activities. Now that they feel more confident many are taking on larger projects themselves. They are also turning to Pros as they become more comfortable having people in their homes.

## Lowe's

**Q2 sales rose 21%** to \$27.6 billion. Comp sales fell 1.6% overall and 2.2% in the US. Online sales grew 7%.

### Q2 Conference Call with Analysts:

**While comp sales declined from Q2 last year,** on a two-year stacked basis comp sales were up 32% overall and in the US.

The pivot in consumer behavior after Memorial Day resulted in negative comps for seasonal categories for the quarter. Comp transactions dropped 12.9% due to falling sales of smaller ticket items to DIY customers.

**Their Lowe's Total Home strategy is driving growth with Pros and DIY customers** in-store, online and for their Installation Services business.

**As expected, DIY demand declined compared to Q2 last year** as many families transitioned back to pre-pandemic purchase patterns and activities. They've seen a drop in DIY traffic on the weekends while weekday traffic has remained strong.

**Pro business grew 21% in Q2** and was up 49% on a two-year basis. That level of growth would not have been possible without intense focus on Pro customers.

**In order to better serve Pros, they reset all US stores last year** to create a more intuitive store layout so Pros can quickly and easily locate all the products they need for their jobs. Their core Pro customer is a small-to-medium-sized business owner who shops frequently across the store. They are continuing to capture more of their spending.

**They continue to add new services, brands and products for Pros**, and launched their exclusive FLEX cordless power tools with an in-store demo station. They also have strong programs with Simpson Strong-Tie, Bosch, DeWalt, Spyder and many more.

**They are improving their Pro Loyalty program** and have just completed the migration of Lowe's for Pros to the cloud. Pros can now use rapid reorder for frequently purchased items.

**They expect Installation Services to continue to play an important role in their Total Home strategy.** They are utilizing their ecommerce platform and revamped their business model to deliver a better customer experience. Installation Services was up 10% for the quarter.

**Lowe's.com sales grew 7%** on top of 135% growth in Q2 2020, which they believe translates to a 9% sales penetration of ecommerce sales and a 2-year comp of 151%. Enhanced ecommerce appeals to customers who expect total flexibility in shopping however, whenever and wherever they choose.

**Approximately 60% of online orders are picked up in a store**, either at the front desk, in their popular pickup lockers or curbside.

**Tickets over \$500 grew 17%**, driven in large part by kitchen and bath flooring, appliances and décor.

**They are pleased with their Canadian business**, which delivered comp growth in line with the US despite several CV19-related operating restrictions.

**They completed the transition to a market-based delivery model for large and bulky items in Florida.** Product now flows from bulk distribution centers to cross-stock terminals and directly to customers' homes, bypassing the store altogether. The old process of storing and delivering items from the stores was highly inefficient. The new model is already driving higher appliance sales, better profitability, lower inventory, higher on-time delivery rates and better customer satisfaction. They will roll it out into other markets this year.

**Approximately two-thirds of their sales come from repair and maintenance activity**, and their research shows that it will take years for the supply of homes to meet projected demand. That is a very positive indicator for the home improvement segment.

**In early August they reinstated mask requirements for all associates** regardless of vaccination status due to the surge in the Delta variant.

**They've installed their home-grown self-checkout capability in 500 stores** to date and it is already driving higher customer adoption rates and allowing them to reduce labor.

**The merchant team is continuing to look at how they test new brands** and new products and working with their brand advocates to make sure they are offering the customer the right products.

**At the end of the quarter inventory was down \$1.1 billion to \$17.3 billion from Q1** and up \$3.5 billion from Q2 2020 when inventory was pressured by pandemic demand.

**They expect the home improvement market to moderate in the second half** and expect sales of \$92 billion for the year,

representing two-year comp growth of 30%.

**They expect to offset some of the pressure from dropping lumber prices** by shifting to a more everyday low prices and value proposition and away from heavy promotional pricing.

#### **Other News:**

**Lowe's has created the #FallTogether Collective**, a group of 10 creators who will work with select customers on outdoor fall projects. Members of MyLowe's loyalty program can register to win one of 50 chances to work with the creators. Each person chosen receives a virtual consultation, customized project plan and a \$500 Lowe's gift card to help purchase necessary supplies. Entrants complete a lifestyle questionnaire that helps match them to a recommended influencer.

## Walmart

**Q2 sales rose 2.4%** to \$141.05 billion and US comp sales rose 5.2% excluding fuel. Results were well ahead of expectations. Sales were boosted by stimulus checks and advance childcare credits. The pace of online sales growth slowed to 6% compared to the first quarter when revenue rose 37%. WM now expects fiscal 2022 comp sales to rise 5% to 6%, up significantly from the low single-digit growth initially forecast.

**Walmart will launch a new program designed to use their existing delivery networks to pick up and deliver goods from other retailers.** Walmart GoLocal will dispatch workers from their Spark delivery network to merchants' stores to pick up items and then deliver them to customers. Over the past year Walmart has doubled Spark's coverage to more than 500 cities. Walmart declined to reveal many details about the program but has reportedly already established several contractual agreements with national and enterprise retail accounts.

## Ace Hardware

**Q2 revenue rose 8.2%** to \$187.8 million. US retail comp sales reported by the approximately 3,400 Ace retailers who share daily retail sales data rose 1.2%, due to a 7.1% increase in average ticket that was partially offset by a 5.5% decrease in same-store transactions.

**Ace added 55 new domestic stores in the second quarter of 2021 and cancelled 6 stores.** Ace has already opened 110 new stores this year and is planning to open at least an addi-

tional 60 stores by the end of the year. The Company's total domestic store count was 4,729 at the end of the second quarter, an increase of 165 stores from the second quarter of 2020. Inventories increased \$231.0 million from the second quarter of 2020 due to the intentional build-up of inventory to support increased demand and to act as a hedge against supplier shortages.

## Amazon

**Amazon introduced Max Your Vax**, a lottery that offers cash prizes of up to \$500,000 as well as cars and vacation packages to vaccinated employees. The price of a ticket is proof you are vaccinated against CV19. Amazon had previously offered front-line workers as much as \$80 to get vaccinated. There will be 18 prizes in all, including two \$500,000 cash awards, six \$100,000 awards, five new vehicles and five vacation packages. Amazon has hosted more than 1,100 on-site vaccination events to help make getting vaccinated as easy as possible for employees and their household members.

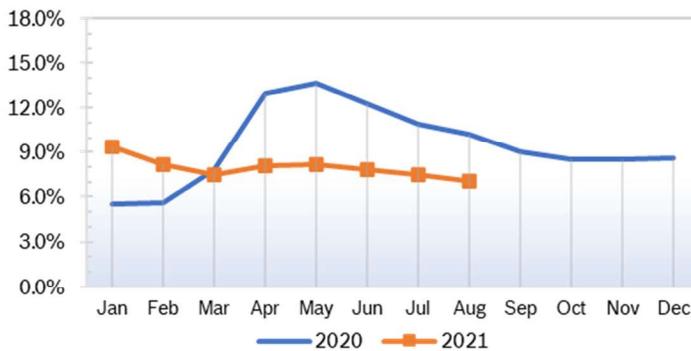
**Customers injured by goods purchased from a third-party seller could get up to \$1,000 from Amazon.** The offer came about a month after the US Consumer Product Safety Commission sued Amazon for failing to accept liability for damages or injury caused by third-party goods because Amazon is not the actual retailer. Amazon told the USCPSC that 80% of claims were under \$1,000. Amazon is also helping their sellers purchase liability insurance by using the Amazon Insurance Accelerator.

**The National Security Agency (NSA) quietly awarded a contract worth up to \$10 billion to Amazon Web Services (AWS),** which set off another high stakes fight between Amazon, Microsoft and other tech giants. The award came after a protracted and bitter court battle over an equally massive JEDI Pentagon contract initially awarded to Microsoft. After Amazon protested and filed a lawsuit the Pentagon withdrew the contract, stating that Microsoft no longer met all their needs. The Pentagon then opened procurement bids to both companies. NSA is highly secretive, so it is very difficult for the media to determine exactly what the contract covers.

## CANADA SNAPSHOT

### Unemployment Falls to 7.1%

Canada Unemployment Rates



- ▶ The unemployment rate fell to 7.1% in August after falling to 7.5% in July. Unemployment peaked at 13.7% in May 2020.
- ▶ Employment rose 0.5% in August, or 90,000 jobs, the third consecutive monthly increase.
- ▶ Employment is just 0.8% below the pre-pandemic level in February 2020.
- ▶ Employment gains were concentrated in the private sector and were mostly full-time job gains. Gains were mostly in service industries.
- ▶ The share of Canadians working from home fell to 24%, the lowest level since October 2020.
- ▶ The number of people working in construction increased for the first time since March 2021, rising by 20,000 (+1.4%). Nearly all of the gains were in Ontario and British Columbia. Despite the monthly increase, the industry remains 4.2% (-62,000) below the level recorded in February 2020.
- ▶ Employment increased in Ontario, Alberta, Saskatchewan and Nova Scotia in August. All other provinces recorded little or no change. For the third consecutive month, British Columbia was the lone province with employment above its pre-pandemic level.

### Consumer Prices Rise 0.6% in July

**The Consumer Price Index (CPI) rose 3.7% on a year-over-year basis in July**, up from a 3.1% gain in June, according to Statistics Canada. Excluding gasoline, the CPI increased 2.8% year over year. On a monthly basis, the CPI rose 0.6% in July, the fastest pace since January 2021. On a seasonally adjusted monthly basis, the CPI was up 0.5%. Prices rose for six of the eight components, with shelter prices contributing the most to the increase. Prices for new homes continue to be impacted by shifting consumer preferences as well as higher building costs compared with July 2020. Gasoline prices continued to rise, but at a slower pace. The BoC had earlier projected that inflation would rise to about 3% because of the disparate comparisons to 2020, but should return to close to the bank's target of 2% by the end of the year. Statistics Canada is attempting to balance the impact of the pandemic by removing items that were not available in March from the year-over-year comparisons.

### GDP Expands 0.7% in June

**Real GDP expanded 0.7% in June** following two consecutive monthly declines. Total economic activity was 1.5% below February 2020's pre-pandemic level. Overall, 15 of 20 industrial sectors were up as both services-producing (+0.7%) and goods-producing industries (+0.9%) rose. Retail trade rose 4.0% in June, partially offsetting the declines in April and May, as 8 of 12 subsectors rose in the month.

**Residential building construction was down 2.3% in June**, decreasing for the second consecutive month after reaching a record high in April. The construction of all types of residential buildings fell, with single-family homes and doubles contributing the most to the decline. Repair construction decreased 0.9%.

**Nonresidential building construction decreased 1.1%**, the third consecutive monthly decline, as lower commercial and industrial building and structure construction more than offset growth in institutional building construction.

### Q2 GDP Falls 1.1%

**Canada's economy unexpectedly shrank 1.1% in the second quarter** on an annualized basis and most likely contracted 0.4% in July following a 0.7% gain in June, according to new data from Statistics Canada. Analysts had expected second-quarter annualized growth of 2.5%.

## Housing and Construction News

**Canada housing starts fell slightly in July** to a seasonally adjusted annual rate of 272,176 units after falling to 282,070 units in June, according to Canada Mortgage and Housing Corp. (CMHC).

**Home sales fell 3.5% in July** to 48,686 units after falling 8.4% in June, according to the Canadian Real Estate Association (CREA) and are down 28% from their peak in March. CREA noted that four consecutive months of dropping sales is an indication of continuing fatigue and frustration among buyers dealing with sky-high prices and a shortage of homes. Sales were down in 80% of all local markets. CREA found that the average price of a home sold dropped to \$662,000 in July from \$679,000 in June but was still up 15.6% from July 2020. Excluding the pricey Greater Toronto Area and Vancouver, the average price was \$132,000 less.

## Retail Sales Rise 4.2%

**Retail sales rose 4.2% in June** to \$56.2 billion after falling to \$53.8 billion in May. Sales restrictions were eased in many regions and sales were up in six provinces and 8 of 11 subsectors, representing 69.5% of retail trade. Core retail sales, which exclude gasoline stations and motor vehicle and parts dealers, increased 4.6%. In volume terms retail sales were up 4.1% in June. Retail sales declined 0.7% in the second quarter of 2021 after posting three consecutive increases. In volume terms, quarterly retail sales were down 0.9%. Decreasing for the third consecutive month, sales at building material and garden equipment and supplies dealers fell 3.1%. In June, 5.3% of retailers in this subsector reported being closed for at least one day.

## Retail Ecommerce Sales Fall in June

**On a seasonally adjusted basis, retail ecommerce sales fell 9.5% in June.** On an unadjusted basis, retail ecommerce sales were up 6.3% year over year to \$3.6 billion in June, accounting for 5.8% of total retail trade. With the increased ability to purchase non-essential items in stores, the share of ecommerce sales out of total retail sales fell 1.2% in June compared with May.

## Retail Notes

**Canadian Tire revenue rose 23.9%** to \$3.92 billion from a year ago, well ahead of expectations.

**Canadian Tire is beefing up their supply chain.** They purchased a 25% stake in Ashcroft Terminal Ltd, with direct access to CP and CN rail mainlines. They made the \$40-million investment in order to improve the flexibility of their supply chain, drive longer-term savings and lower carbon emissions, according to Canadian Tire CEO Greg Hicks. Hicks went on to say they left sales on the table in Q2 because of supply chain restrictions, although they leveraged relationships with vendors, transportation providers and third-party logistics facilities to get inventory to their dealers. Having deep inventory available has been one of the things fueling strong growth. Canadian Tire recently chartered three vessels with 2,000 containers each to transport goods, the first time they have ever chartered their own boats.

**Canadian Tire was chosen as Canada's Most Respected General Merchandise Retailer** in the first national study of the Canadian public's opinions conducted by Maru Public Opinion Research, which surveyed more than 3,700 randomly selected Canadians in June 2021.

## MARKET TRENDS

### White House Hosts Building Supply Chain Meeting

**NAHB facilitated a meeting at the White House to discuss home building materials supply chain issues.** NAHB said that many diverse groups were involved in the discussion, which marked an important step forward to finding solutions that will end production bottlenecks. NAHB thanked Commerce Secretary Gina Raimondo for working closely with them and understanding the need to address the supply chain disruptions that are holding back housing and economic growth.

**The NAHB-sponsored meeting helped spur a virtual home building supply chain roundtable** hosted by a bi-partisan group of senators and the Commerce Secretary. Representatives from the building supply chain included NAHB members. The purpose was to address skyrocketing building materials prices and the impact of the labor shortage.

**The sponsoring senators called for action on the lumber issue.** In May they delivered a joint letter to Congress that

called for the elimination of Canadian softwood lumber tariffs and an increase in the production of domestic lumber. They noted that pandemic-driven supply chain shortages have driven up prices and the volatility in the lumber market is pricing hundreds of thousands of potential home buyers out of the market. While framing lumber prices have dropped in recent weeks, overall prices of wood products used in home building continue to soar, and supply chain issues delay projects and raise costs.

## How Much Construction Workers Earn

**Half of payroll workers in construction earn more than \$50,460 with the top 25% making at least \$71,000**, according to the 2020 Bureau of Labor Statistics Occupational Employment Statistics Survey data and analysis by the NAHB. In comparison, the US median wage is \$49,150, while the top 25% of US workers make at least \$67,410.

**However, overall construction wages did not register the sharp gains** that would be consistent with a strong pace of home building and persistent labor shortages that are weighing down residential construction.

**Year over year, median wages in construction rose 3%.** However, wages of multiple entry-level construction trades increased more quickly. Median wages of helpers of various construction tradesmen went up 5%.

**Among construction trades, first-line supervisors of construction trades make the second-highest wages**, with half of them making over \$67,560 and the top 25% earning at least \$87,160. In general, construction trades that require more years of formal education, specialized training or licensing tend to offer higher annual wages.

**Becoming a carpenter requires less formal education** than some trades, but the median wages of carpenters still exceed the national median. Half of carpenters working in construction earn over \$49,730.

## Americans Trying to Buy Homes

**A survey NAHB conducted in the second quarter showed that 17% of adults planned to buy a new home.** The most recent survey now shows that more than half of those adults (61%) have moved beyond the planning stage and are now

actively trying to buy, according to NAHB. This share of active buyers has increased for six consecutive quarters, a trend that began after the final quarter of 2019 when it stood at 43%. In the past year and a half, several factors have contributed to turning more prospective buyers into active ones, including low mortgage rates, desire for more space and wanting to move to the suburbs/exurbs. Furthermore, the share of prospective buyers who are actively searching for a home has grown in every region of the US. From the final quarter of 2019 to the second quarter of 2021, the share went from 46% to 66% in the Northeast, 40% to 50% in the Midwest, 43% to 58% in the South and 40% to 72% in the West.

## Online Sales Expected to Grow

**The National Retail Federation (NRF) forecast that non-store and online sales are expected to grow between 18% and 23% this year**, helping to fuel overall retail sales growth of between 10.5% and 13.5%. That would translate into online sales between \$1.09 and \$1.13 trillion, up from \$920 billion in the sales explosion in 2020 that was fueled by the pandemic.

**Emarketer forecast that Amazon will account for 41.4% of all US retail ecommerce sales this year** and will contribute more than 50% of US growth in online sales from 2019 to 2021. Emarketer estimates Amazon's ecommerce sales will reach \$386.40 billion by the end of this year.

**According to their analysis, Walmart is the number two player**, with a 7.5% share and The Home Depot comes in at number five, with a 2.3% share.

**Emarketer projects that ecommerce will account for 18.9% of total holiday sales this year**, or about \$206.88 billion, up from \$878.26 billion in 2020, when ecommerce accounted for 17.5% of holiday sales. A number of retailers, including Walmart, have already announced their stores will be closed Thanksgiving Day. Prior to the pandemic, ecommerce sales Thanksgiving Day hit \$4.13 billion. This year they are expected to reach \$6.21 billion. Growth of Black Friday ecommerce sales is expected to slow since stores will be open. The digital push is also expected to get the holiday shopping season off to an early start.

**Online sales did not plummet when the economy began reopening** as many analysts had expected. The recent return

to restrictions and mask mandates may now cause projections to be revised upwards. Logistics firm ShipBob's 2021 E-commerce Shipping and Fulfillment Benchmarks Report covered April 2020 through March 2021. It predicts that between 20% and 30% of the global pandemic-related shift to online shopping will become permanent.

## Most Companies See Labor Shortages

**An astonishing 95% of companies are currently hiring and 85% are experiencing labor shortages**, according to a survey of more than 170 human resource executives and business leaders conducted by Challenger Gray online in July. Nearly 74% of responding companies said 74% of respondents said a desire for more flexibility was the principle reason they were leaving, followed by burnout, cited by 59%.

## Walmart Tests Alternatives to Plastic Bags

**Walmart is one of the major retailers behind the three-year "Beyond the Bag" initiative** which is focused on reducing the use of plastic bags while still making shopping convenient for shoppers. Plans call for winning submissions to begin pilot testing at stores in Northern California. Options being tested include reusable bag models and technologies that extend the useful life of retail bags and provide visibility into the bag's actual lifecycle. ChicoBag's solution is designed to enable customers to borrow bags on-site, eliminating the need for customers to remember their reusable bags. Pilots are slated to run through early fall with an objective of refining the winning solutions. Other companies are also developing alternatives to single-use plastic bags. More than 100 billion single-use plastic bags are currently used every year in the US. Other retailers participating include CVS, Target, Dollar General, Walgreens, Kroger and Albertsons.

## In Search of Goldilocks

**The Fed is always in pursuit of a Goldilocks economy; not too hot and not too cold.** Too hot, and demand and shortages push up prices. Too cold, and there's not enough demand. Right now supply chain bottlenecks, labor shortages, skyrocketing home prices and rising wages and labor shortages are all causing the economy to heat up. If it gets too hot, the Fed might feel the need to raise interest rates in order to cool things off. However, most economists think the spike is temporary, and will

resolve on its own as supply chain problems and shortages are resolved and more people go back to work. The Biden administration recently stated that they are going to take steps to lower prices at the pump and the grocery store by cracking down on what some major players are doing that is keeping prices artificially inflated. The administration is also bringing port operators, shipping lines and labor unions together to find ways to speed up the ports' operations.

## Biometrics Help Stop Hackers

**Amazon is implementing oversight technology that monitors keyboard strokes and mouse movements** of customer service workers to prevent rogue workers, imposters and hackers from accessing confidential customer data. Amazon's security, finance and legal teams have all agreed to use a behavioral biometric system from a cybersecurity company, according to Motherboard. The system doesn't monitor worker communications or other things that would violate worker privacy. Decreased security capabilities for Amazon customer service agents working from home because of CV19 and more customer service jobs outsourced to foreign countries with less stringent security measures has forced Amazon to take these steps.