

Market Briefing

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- ▶ Increases investment in chip production

Stanley Black & Decker

- ▶ Expects DIY boom to continue
- ▶ Named a top female-friendly company by Forbes

RETAIL

Retail Sales Rise 1.7%

Holiday Sales Updates

The Home Depot

- ▶ Q3 sales rise 9.8%; comp sales rise 6.1% overall and 5.5% in the US.
- ▶ Conference call with analysts

Lowe's

- ▶ Q3 sales rise 2.7%; comp sales rise 2.6%.
- ▶ Conference call with analysts

Walmart

- ▶ Q3 revenue rises 4.3%; comp sales excluding fuel rise 9.2%
- ▶ CFO leaving the company

Ace Hardware

- ▶ Q3 revenue rises 1.4%

Amazon

- ▶ Considers dropping Visa
- ▶ Pays California fine for concealing CV19 cases
- ▶ Survey shows people prefer hybrid work schedules
- ▶ Seeks permission to launch high-speed internet satellites
- ▶ Opens robotic/human hybrid warehouse

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Economy

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Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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US ECONOMY

Exchange Rates November 30, 2021

| | | |
|------------------------|------------------|-----------------------|
| Euro | 1 Euro = \$1.129 | \$1.00 = 0.886 Euros |
| Canadian Dollar | 1 CAD = \$0.781 | \$1.00 = 1.281CAD |
| Japanese Yen | 1 Yen = \$0.009 | \$1.00 = 113.164 Yen |
| Chinese Yuan | 1 Yuan = \$0.157 | \$1.00 = 6.362 Yuan |
| Mexican Peso | 1 Peso = \$0.046 | \$1.00 = 21.464 Pesos |

Market Watch November 30, 2021

| | | |
|--------------------|--------|-------|
| DOW | 34,484 | -3.7% |
| NASDAQ | 15,538 | 0.3% |
| S&P 500 | 4,567 | -0.8% |

Volatility returned to the markets in November with investors concerned about the economic impact of the CV19 Omicron variant and the possibility that the Fed may raise interest rates sooner than expected to help combat inflation.

Consumer Spending Grows 1.3%

Consumer spending rose 1.3% in October after rising 0.6% in September. Personal incomes, which fuel consumer spending, fell 1% in September, the steepest decline in four months. Wages jumped 0.8% after rising 0.4% in August, a reflection of the tight job market and the extraordinary measures employers are taking to attract and retain workers. The economy is still being hamstrung by CV19 issues and supply chain problems. For the third quarter, consumer spending, which fuels 70% of overall economic activity, weakened to an annual growth rate of just 1.6%. Economists remain hopeful for a bounce-back in the current quarter, with confirmed CV19 cases declining, vaccination rates rising, businesses investing and more Americans venturing out to spend money. Many analysts think the economy will rebound at a solid annual growth rate of at least 4% this quarter.

Consumer Prices Jump 0.9%

The Consumer Price Index (CPI) rose 0.9% in October and was up 6.2% year over year. Core inflation, which excludes the volatile food and energy categories, climbed 0.6% in October

after rising 0.2% in September and was up 4.6% year over year, the biggest increase since 1991. Prices increased across most categories, with big jumps in gasoline, energy costs and new and used vehicles, furniture and rent. The personal consumption expenditures (PCE) price index, excluding the volatile food and energy components, rose 0.4% in October after rising 0.2% in September. The core PCE was up 4.1% year over year. The core PCE price index is the Fed's preferred measure for its 2% inflation target, which is now a flexible average. On a regional basis, prices were up more in the South and the Midwest. Supply chain constraints and disruptions are expected to keep inflation elevated into 2022.

Consumer Confidence Drops to 109.5



- ▶ The New York-based Conference Board's Consumer Confidence Index dropped to 109.5 in November after rising to a downwardly revised 111.6 in October.*
- ▶ The Present Situation Index, which is based on consumers' assessment of current business conditions, fell to 142.5 after rising to a downwardly revised 145.5 in October.
- ▶ Expectations for the next six months fell to 87.6 after rising to a downwardly revised 89.0 in October.
- ▶ Consumer 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 4.2%



- ▶ The unemployment rate fell to 4.2% in November after falling to 4.6% in October. That's the lowest rate of unemployment since the start of the pandemic, when it stood at just 3.5%.
- ▶ The economy added 210,000 new jobs, well below expectations of more than 500,000.*
- ▶ Job growth for September and October was revised up by an additional 82,000 jobs.
- ▶ Construction added 31,000 jobs in November and transportation and warehousing added 50,000 new jobs.
- ▶ Average hourly earnings for private-sector workers fell 0.1% in November but were up 4.8% over the last year.
- ▶ Even after adding 6.1 million jobs this year, payrolls remain 3.9 million below the level of February 2020, a gap that is even larger when adjusting for population growth.
- ▶ The labor force grew by 594,000 workers, and the labor force participation rate edged up to 61.8%, the highest since March 2020.

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

Job Openings Steady

US job openings remained at 10.4 million at the end of September after rising to an all-time high of 10.9 million in July, according to the latest Job Openings and Labor Turnover Survey (JOLTS) from the US Bureau of Labor Statistics (BLS). Hiring dropped and the quits rate hit another series-high of 3.0%

as 4.4 million people quit their jobs, equivalent to about 3% of the workforce. Demand remains high and businesses continue to report that finding qualified workers is very challenging. 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 61.8

The Chicago Purchasing Managers Index (Chicago PMI) fell more than six points to 61.8 in November. It was the 17th consecutive month the index remained in positive territory. Inventories rose 8.5 points to 59.6, the highest since late 2018. Some firms reported stockpiling to get ahead of further supply chain disruptions and counteract logistical issues. Order Backlogs dropped 13.8 points to 60.8, 6 points below the 12-month average, as firms reported a reduction in the size of incoming orders. Prices Paid dropped to 93.8 after hitting a 42-year high in October. The majority of firms said that they have not seen any real easing in supply chain issues and disruptions. Looking back to when the series began in 1967, the PMI has ranged from 20.7 in June 1980 to 81.0 in November 1973.

Wholesale Prices Rise 0.6%

The Producer Price Index rose 0.6% in October after rising 0.5% in September and was up 8.6% year over year for the second consecutive month. It was the largest annual increase since the Labor Department began tracking inflation data in 2010 and the tenth consecutive monthly increase in wholesale prices. Core inflation, which excludes the volatile food and energy categories, rose 0.4% in October after rising 0.1% in September and was up 6.8% from October 2020. More than 60% of the increase was due to the rising cost of gasoline and other goods. Trucking freight costs jumped a record 2.5% in October and compensation rose by the most on record. Nearly one-third of all companies stated they will increase compensation over the next three months in hopes of retaining and/or attracting workers. The big increases added to worries about climbing inflation at all levels.

Q3 GDP Grows 2.1%

US economic growth in the third quarter inched up to 2.1% from the 2.0% growth first reported, according to the second reading from the Commerce Department. The small increase was due to a slightly higher revision to consumer spending,

which grew an upwardly revised 1.7%. The contribution to GDP from business inventory was also revised up slightly. The Fed now expects the economy to grow 5.5% for the year, which would be the best growth since 1984 and a big improvement from 2020, when the economy shrank by 3.4%.

HOUSING & CONSTRUCTION

Builder Confidence Rises to 83

Builder confidence rose three points to 83 in November after rising four points to 80 in October, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). The HMI hit an all-time high of 90 last November. Low existing inventories and strong buyer demand sent confidence up despite persistent supply chain issues and chronic shortages of materials, land and labor. All three major HMI indices posted gains in October. The HMI index gauging current sales conditions rose three points to 89, the index tracking traffic of prospective buyers rose three points to 68 and the component measuring sales expectations in the next six months held steady at 84. Regional scores remained mixed. Any number over 50 indicates that more builders view the component as good than view it as poor.

Building Permits Rise 4.0%

Overall building permits rose 4.0% in October to 1.65 million units after falling to 1.59 million units in September. Single-family permits rose 2.7% to 1.07 million units in October after falling to 1.04 million units in September. Multifamily permits rose 6.6% to 581,000 units after falling to 548,000 units in September. Due to supply-chain issues, there are 152,000 single-family units that have been permitted but have not yet begun construction, up 43.4% from a year ago. Regional permits were up on a year-to-date basis.

Housing Starts Fall 0.7%

Housing starts fell 0.7% in October to a seasonally adjusted annual rate of 1.52 million units after falling to 1.56 million units in September. Single-family starts fell 3.9% to 1.04 million units after holding steady at 1.08 million units in September. Single-family starts were up 16.7% year-to-date. The multifamily sector, which includes apartment buildings and condos, rose 7.1%

to 481,000 units after falling in the previous two months. Combined single-family and multifamily regional starts were up year to date compared to 2020. 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 0.4%

New home sales edged up 0.4% in October to a seasonally adjusted annual rate of 745,000 new homes and sales for September were revised sharply downward. Sales were down 23.1% from October 2020. Inventory rose to a 6.3-months' supply, with 389,000 new single-family homes for sale, up from 379,000 new homes in September. The median price of a new home rose to a record \$407,700, up nearly 18% from a year earlier. Regional year-over-year sales were down. 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 0.8%

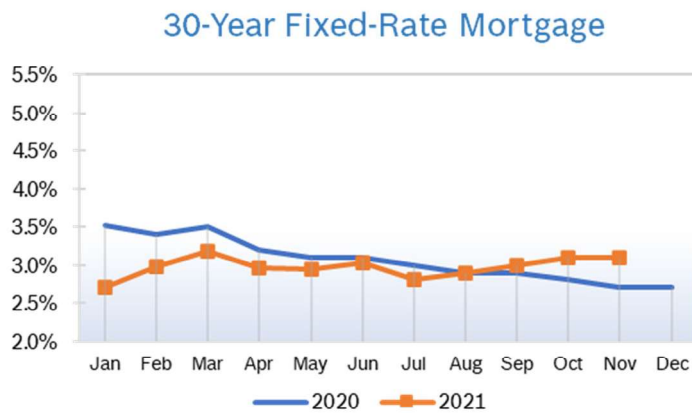
Existing home sales rose 0.8% in October to a seasonally adjusted annual rate of 6.34 million units after rising to 6.29 million units in September. Sales were down 5.8% from October 2020, according to the National Association of Realtors. The median price of a home sold in October was \$353,900, up 13.1% from October 2020. Year-over-year prices have risen for 116 consecutive months. Total inventories fell 12% to 1.25 million, a 2.4 months' supply at the current sales pace. Properties were on the market for an average of just 17 days in October. Regional sales were mixed.

Regional Housing Data

| | Northeast | South | Midwest | West |
|----------------------|-----------|---------|---------|---------|
| Builder Confidence | 70 (-2) | 84 (+4) | 72 (+3) | 84 (+1) |
| Building Permits YTD | 14.4% | 20.4% | 17.2% | 23.0% |
| Housing Starts Y/Y | 30.2% | 15.2% | 10.7% | 20.4% |
| New Home Sales* | -26.8% | -16.7% | -28.3% | -33.1% |
| Existing Home Sales* | -2.6% | 0.4% | 4.2% | Steady |

* Year over Year **unchanged

Mortgage Rates Steady at 3.1%



- ▶ 30-year fixed-rate mortgages (FRM) held steady at 3.1% at the end of November. Mortgage rates were 2.7% at the end of November 2020.
- ▶ Despite the economy, inflation and monetary policies, mortgage rates have stayed within half a percentage point all year, despite predictions that rates would gradually rise.
- ▶ Purchase intent remains strong despite persistent problems with inventory and rising home prices.

POWER TOOL INDUSTRY

Robert Bosch Tool Corporation

Bosch intends to increase their investment in chip production and expand the chip factories in Dresden and Reutlingen as part of their overall plan to help allay the world-wide shortage of chips.

Stanley Black & Decker

SB&D expects the DIY boom that was fueled by people staying home during the pandemic to continue for at least the next few years, according to CFO Don Allan. The company thinks that the reconnection with the home will continue, and that improvements will also be fueled by the emerging trend to hybrid offices, which ensures that many people will continue working out of their homes for the foreseeable future.

SB&D was named to the *Forbes* World's Top Female-Friendly Companies, a list based on a survey of 85,000 female employees from 300 global companies. SB&D ranked 10 in the "Semiconductors, Electronics, Electrical Engineering, Technology, Hardware & Equipment" category and 163 out of 300 companies overall.

RETAIL

Retail Sales Rise 1.7%

Retail sales rose 1.7% in October after rising 0.7% in September, well ahead of expectations. Sales were up 16.3% year over year. Spending rose 4% at online retailers. Analysts noted that online shopping was dominating early holiday shopping but expect in-store shopping to rise as the holidays draw closer and shipping deadlines loom. Excluding automobiles, gasoline, building materials and food services, core retail sales rose 1.6%, doubling September's increase. Core retail sales were up 11.3% year over year. Core retail sales correspond most closely with the consumer spending component of GDP. 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.

Holiday Sales Recap

Nearly 180 million Americans shopped from Thanksgiving Day through Cyber Monday, according to the annual survey from the National Retail Federation and Prosper Insights & Analytics. That's down from 186.4 million shoppers in 2020, but about in line with the average of the past four years. With retailers offering up deals as early as October, 49% of shoppers said they started shopping well before Thanksgiving.

The number of people who shopped in stores was up from 2020 but still down 23% from pre-pandemic levels. The total number of online shoppers decreased as people became more comfortable returning to stores.

Black Friday remained the most popular day for both in-store and online shopping, with 66.5 million shoppers in store and 88 million shopping online, compared to 77 million who shopped on Cyber Monday. About 51 million shoppers supported local businesses by going shopping on Small Business Saturday. By the end of the four-day holiday shopping period more

than three-quarters of shoppers had completed at least half of their holiday shopping.

Thanksgiving weekend shoppers spent an average of \$301.27 on holiday-related purchases such as gifts, décor, apparel and toys. That's down slightly from \$311.75 in 2020. As in previous years, about two-thirds was spent directly on gifts. As always, many people shopped both in stores and online.

The Home Depot

Q3 sales rose 9.8% to \$36.8 billion and comp sales rose 6.1% overall and 5.5% in the US. Both overall sales and comp sales greatly exceeded expectations.

Q3 Conference Call with Analysts:

Twelve of 14 merchandising departments posted positive comps, including building materials, tools and appliances. Lumber posted high negative comps as lumber prices declined to more normal levels.

Comp average ticket rose 12.7%, driven in part by inflation across several product categories. Commodity categories positively impacted average ticket. Comp transactions dropped 5.8%.

On a 2-year basis both comp average tickets and comp transactions were healthy and positive. Big ticket comp transactions, which are tickets of \$1,000 or more, rose 18% compared to Q3 2020. Pro sales growth continued to outpace DIY growth.

Digital sales (online and mobile) grew 8% in Q3, bringing their two-year growth in digital sales to 95%.

Customers continue to utilize all channels; 55% of online orders are picked up in or fulfilled by stores.

They are focusing on making in-store space more productive while also enhancing the customer's shopping experience. By using models along with the expertise of local field merchants they were able to create store specific plans that adjusted assortments and made better use of space. The changes improved sales per square foot, in-stock availability and labor utilization as

well as customer satisfaction scores. They will be rolling out to 400 stores this year and targeting more stores for 2022.

At the end of Q3 inventories were up \$4.4 billion compared to last year with inventory turns of 5.4 times compared to 5.9 times during Q3 2020.

They saw record sales for their Halloween event featuring exclusive product offerings and innovative approaches. They intend to apply the same principles to their holiday, Black Friday and Gift Center events coming up.

They are managing to a relatively short cycle because they don't believe they can accurately predict how the external environment and cost pressures will evolve or how they will ultimately impact consumer spending. In order to deal with that uncertainty they are committed to remaining flexible and nimble.

They are very pleased with their overall growth with the Pro customer. Larger Pros were more challenged during the pandemic; that business is recovering. They've relaunched their Pro loyalty program and are seeing record enrollment. Pros respond to the fact that their supply chain can deliver products that are often in short supply elsewhere. For example, despite nationwide paint shortages they have remained in good positions with their two key paint suppliers.

Pros report that they still have multiple weeks and months of backlogs, ensuring that Pro demand will continue.

Their business-to-business (B2B) website and Pro app are both performing at record levels. Basket sizes, tickets and transactions are all growing and Pros are spending more time on the website and using the app. Pros engage with them at a much higher level than the average customer. They are able to reach out to Pros through field sales, Pro associates in the stores and through digital marketing channels.

Their one supply chain rollout is going "incredibly" well as they transition to their new bulk distribution centers. Seven of their flatbed distribution centers are up and running now. Eventually a total of more than 20 direct fulfillment centers will let them provide 90% of the country with same day or next day delivery. They've taken over the delivery of about half of their appliance volume and are on target to deliver all big and bulky products from fulfillment centers.

They believe that supply chain bottlenecks and other challenges are likely to persist well into or through 2022 and they will continue to work hard to make sure they continue to get what they referred to as “disproportionate flow” i.e., more than their share of goods.

Beginning in the second quarter their merchant inventory and supply chain teams leveraged tools and analytics and worked with their vendor partners to adjust assortments and in some cases turn to alternative products. Their efforts have enabled them to improve their in-stock positions even though demand has remained high.

Their mix of tools and other products that are popular in the fourth quarter are largely sourced from overseas and supplies may impact Q4 sales even though they have already received most of their Q4 goods. Even though they still have 95 container ships parked off Long Beach they are not overly concerned about the product.

Product costs, transportation costs and wage pressure all have real impacts that are hard to project so they need to stay flexible and manage to them.

They believe that the increase in home values makes people feel good about investing in their homes. The housing shortage is creating a backlog of demand that they believe will be present for quite some time.

Throughout the third quarter they saw weekend traffic flow pick up without any real drop in weekday traffic.

Share data is difficult to pinpoint exactly, but based on government data, third-party trackers and conversations with their suppliers, they believe they are growing their share faster than the market is growing overall.

Some suppliers have made the decision to focus exclusively on The Home Depot because they are not able to service everyone due to shortages of goods and other supply side issues. Their exclusives give both Pro and DIY customers more reasons to shop with them.

Other News:

THD hosted their first-ever Corporate Career Day the end of

November. The virtual event was open to external job seekers at all levels and all career interests. Participants learned about corporate career opportunities and joined discussions led by THD’s corporate leadership team members on topics including retail technology and coding, creating an interconnected customer experience, product, company culture and more.

Lowe’s

Q3 sales grew 2.7% to \$22.9 billion and comp sales grew 2.6%. Online sales rose 25%.

Q3 Conference Call with Analysts:

They credited their Total Home strategy for growing their share of wallet, with both Pro and DIY customers becoming more confident that Lowe’s can meet their project needs.

Like most retailers, they are looking at sales and trends on a two-year basis, because comparisons to 2020 don’t make sense. The only way they can get a handle of real trends is to compare them to pre-pandemic figures. Just as an example, they incurred \$45 million in CV19 related expenses during the quarter, compared to \$290 million in Q3 last year.

They were also comfortable enough with their growth trajectory to issue quarterly guidance, something that many other retailers have not wanted to do. Their improved expectations for 2021 include sales of \$95 billion compared to the \$92 billion forecast earlier; that would produce two-year sales growth of 33%.

Customers are more aware of potential global supply chain disruptions and are more likely to purchase products as soon as they are available.

Their battery-powered outdoor power equipment sales grew more than 20% during the quarter and had strong sales to both DIY and Pro customers. They are continuing to expand the brands and products available.

They continue to build out their Pro power tool accessory program and launched new products from Spyder and DeWalt, including exclusive circular saw blades from both brands.

They saw an increase in DIY demand on weekends as children returned to school and travel slowed.

Tickets over \$500 increased 11%, thanks in part to particularly strong performances in appliances and flooring. Comp average ticket increased 9.7%. Commodity inflation did not have a material impact on comp sales for Q3 as deflation in lumber was largely offset by inflation in other categories. Comp transactions dropped 7.5% during the quarter due to lower sales to DIY customers of smaller-ticket items, as well as lower DIY lumber unit sales.

They are making significant progress growing Pro sales, with Pro sales up 16% for the quarter and 43% on a two-year basis.

They recently completed their first Pro Pulse Survey, which was designed to give them more insight into what Pros want. They are encouraged about how optimistic Pros are about the future and their strong job pipelines. A full 80% of Pros expect the increased home improvement demand that developed during the worst of the pandemic to keep growing and continue well into 2022. They have insight into the top five projects Pros will be focused on next year. Also, many Pros say they plan to take advantage of holiday deals by buying tools and supplies.

Pros are also responding very well to their new in-store convenience features, including Pro trailer parking, free phone charging stations and air stations for refilling tires. They are also working on carrying more job-lot quantities and maintain consistent in-stock positions for high demand goods. Pros are always in a hurry and if they come in and don't find what they want they think twice about coming back.

With quarterly growth of 25%, online sales represented 9% of sales for the quarter with two-year comp growth of 158%. They launched a paint visualizer during the third quarter and are continually working on fully integrating the online and in-store shopping experiences.

They have been ordering inventory much earlier in order to assure supplies and minimize cost increases, including seasonal buys for 2021 and 2022. They have a growing network of coastal holding facilities so they can hold products upstream from their regional and bulk distribution centers until they are needed. Even though they are carrying more inventory than

normal there are areas where they would like to be even heavier but are limited by supplies.

Building inventory has also helped them take advantage of changing consumer habits, such as the early season buying that began in October. Their tools business shifted into a gifting mode very early and storage products have also been moving briskly.

Their perpetual productivity improvement (PPI) initiatives are designed to make incremental improvements in processes. Two examples are a simplified interface at checkout that has allowed them to train cashiers more quickly and also improve the customer experience. It has worked so well they have started introducing the simplified interface to other selling stations throughout the store. Lowe's internally designed self-checkout stations are another good example. The new screens are so much easier to use they are seeing much higher customer adoption rates.

During the quarter they offered first responders a discount for the first time.

After seeing the success of their market-based delivery model for big and bulky products in their test market in Florida, they expanded to their second geographic area, the Ohio Valley region. The new delivery model is driving higher sales in appliances as well as improving operating margins, reducing inventory and raising their on-time delivery rate. They plan to complete the US rollout over the next 18 months.

On the conference call they announced the launch of Lowe's Livable Home products and installation services as part of a collaboration with AARP. They will offer affordable on-trend solutions such as walk-in bathtubs, grab bars, stairlifts, nonslip floors, pull-down cabinets and wheelchair ramps so customers can modify their homes and age in place.

Results in Canada lagged the US as the Canadian business is more heavily weighted toward lumber.

Other News:

Lowe's was named *Fortune's* Most Admired Specialty Retailer for the first time in 17 years.

Lowe's recently launched program, "Making It...With Lowe's," is designed to help entrepreneurs take their ideas to market. The entrepreneurs who are chosen receive grants and mentoring from Shark Tank star Daymond John. Lowe's says it is part of their commitment to small, diverse businesses.

Walmart

Q3 revenue grew 4.3% to \$140.53 billion, beating expectations. Comp sales excluding fuel rose 9.2%, driven by high grocery demand and people buying more at stores. Walmart reported they added 11.5% to their inventory for the quarter to meet holiday demand. They now expect full-year US comp sales to exceed 6%, topping the high end of their previous forecast.

CFO Brett Biggs will step down next year. Analysts were surprised, as the long-time exec was considered the logical successor to CEO Doug McMillon. Biggs will remain in the role until a successor is named next year and will continue to represent the company as a board member of their fintech startup until January 2023. The startup, a joint venture with investment firm Ribbit Capital, aims to develop financial products for Walmart's employees and customers. Walmart said it was considering internal and external candidates to replace Biggs.

Ace Hardware

Q3 revenues rose 1.4% from Q3 2020 to a record \$2.0 billion. On a two-year basis revenue was up 32%. US retail comp sales reported by the 3,400 Ace retailers who share daily retail sales rose 0.3% during the quarter, a result of a 7.5% increase in average ticket that was offset by a 6.7% drop in comp store transactions.

Ace added 48 new domestic stores in the third quarter and cancelled 18 stores, leaving the company's total domestic store count at the end of the third quarter up by 174 stores to 4,759.

More than three-quarters of Americans planned to host or attend a Thanksgiving celebration this year, with only 17% planning to quarantine compared to 40% last year. Ace held their popular Thanksgriiling event in stores nationwide the weekend before Thanksgiving. In order to prepare for the event, Ace holds BBQ boot camp training for associates so they can knowledgeably assist customers. Many stores brought in local chefs and grill experts for free demonstrations and consulta-

tions. On December 4 participating stores will host a Gifts and Grilling party that will focus on indoor and outdoor power tools, Yeti products and the best in grills from Weber, Traeger and Big Green Egg.

Amazon

Amazon set off alarm bells by announcing that they are considering dropping Visa as a partner on their US-branded credit card after confirming they would stop accepting Visa credit cards in the UK due to an intensifying dispute over payments. They are reportedly in talks with several payment networks, including Mastercard and American Express. In October, Visa began charging 1.5% of the transaction value for credit card payments made online or over the phone between the UK and the EU. In 2016 Walmart's Canadian division stopped accepting Visa after being unable to reach an agreement on fees; it took seven months to settle that dispute.

Amazon agreed to pay the state of California \$500,000 for concealing CV19 case numbers from workers. It was the first such action under the state's new "right to know" law meant to improve workplace safety. Amazon also agreed to submit to monitoring and improve how it notifies local health agencies and workers about cases in the workplace. While not a big fine for Amazon, it's a very large fine from the California Division of OSHA for safety violations.

Amazon's most recent employee survey showed that people want to go back to the office two to three days per week and work remotely the rest of the time. The hybrid office concept is gaining momentum as employees and employers look for ways to deliver the productivity and flexibility of remote work along with the opportunity for networking, brainstorming and team interactions provided in office settings.

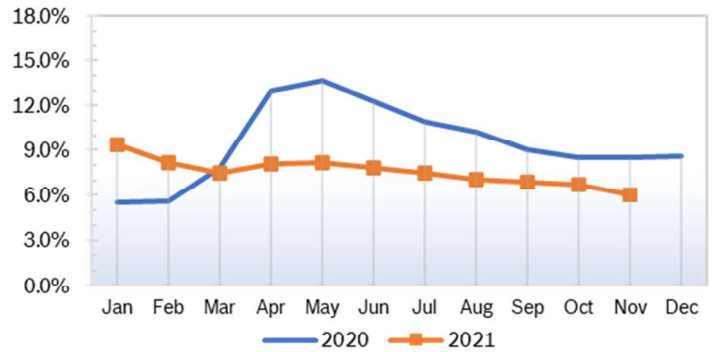
Amazon asked the US government for permission to send two high-speed Internet provider satellites into space in 2022. Amazon stated that the satellites will allow them to test the communication and network technology they will use in their final design and is one of the first steps towards completing the Kuiper project. The project will launch 3,236 satellites into space that will orbit a short distance from Earth and provide high-speed internet to all parts of the world. Amazon has promised to invest more than \$10 billion dollars in this project.

Amazon’s biggest, newest warehouse, a five-story behemoth the size of 17 football fields, employs ten robots for every human. The \$250 million facility in New Castle, Delaware, is home to 10,000 robots and about 1,000 human workers who all spend 10 to 12 hour shifts at the 3.7 million-square foot complex. Amazon has plans to open more super-centers, as robots make it easier to manage inventory and speed deliveries. Amazon says automation frees workers from boring, repetitive tasks. Warehouse turnover is traditionally very high, with 100% annual turnover not uncommon.

CANADA SNAPSHOT

Unemployment Falls to 6.0%

Canada Unemployment Rates



- ▶ The unemployment rate fell to 6.0% in November after falling to 6.7% in October, marking the sixth consecutive month the unemployment rate declined.
- ▶ Unemployment peaked at 9.4% in January and is now within 0.3% of its pre-pandemic level.
- ▶ Employment rose by 154,000 jobs, or 0.8% in November, the sixth consecutive monthly gain in jobs.
- ▶ Employment increased in both the goods and services sectors and grew in all provinces.
- ▶ The number of people working in retail trade increased by 34,000 (+1.5%) in November, adding to a gain of 72,000 recorded in October, surpassing pre-pandemic levels for the first time.
- ▶ The labour force participation rate was 65.3% in November, unchanged from October, and virtually the same as in February 2020 before the pandemic.

Consumer Prices Jump 4.7%

The Consumer Price Index (CPI) jumped 4.7% in October after rising 4.4% year over year in September, the fastest pace since February 2003. Excluding gasoline, the CPI rose 3.3% year over year in October. Energy, housing and food prices are

the key drivers for inflation, all areas where Canadians cannot easily curb spending. However, analysts note that doesn't mean people will cut back on spending since many consumers saved money during the pandemic. Homeowner replacement costs, considered a marker for new home prices, rose 13.5% year over year, the sixth consecutive double-digit increase. The Bank of Canada (BoC) averages three measures of inflation to gauge underlying price pressures. Those three measures came in at an average of 2.67% in October, unchanged from September. The BoC's target range for inflation is between 1% and 3%.

Q3 GDP Grows 4.5%

GDP grew 4.5% in the third quarter after shrinking in Q2, according to Statistics Canada. Household spending on semi-durable goods rose 14% and spending on services rose 6.3%. After four consecutive quarters of strong growth, new construction and renovations fell in the third quarter. The 5.2% drop in new construction was the largest drop since the second quarter of 2009. The savings rate dropped from 14% to 11% as CV19 restrictions eased and people returned to more normal activities such as traveling, shopping in person and eating out. GDP growth was ahead of expectations.

Housing and Construction News

Canada housing starts fell 3.7% in October to 236,554 units after falling to 251,151 units in September, according to Canada Mortgage and Housing Corporation (CMHC). Demand for housing remains strong but labor and supply constraints have been slowing down permits.

The Canadian Real Estate Association reported October home sales rose 9% to 53,746 in October after rising to 49,485 units in September. On a non-seasonally adjusted basis sales fell 11.5% from last October and new listings were down almost 20%. Economists noted that the year-over-year decline was due to low inventory and rising prices which are both discouraging buyers. Eighteen of 31 markets reported increasing sales.

Retail Sales Fall 0.6%

Retail sales dropped 0.6% to \$56.6 billion in September, due mostly to lower sales of automobiles which were primarily caused by supply issues and the global shortage of semiconductor chips. Sales decreased in 7 of 11 subsectors, representing 63.5% of retail trade. Core retail sales, which exclude gaso-

line stations and motor vehicle and parts dealers, decreased 0.3%. Retail sales were up 2.7% in the third quarter, the largest increase since the third quarter of 2020. In volume terms, quarterly sales were up 1.5%. Sales increased in 9 of 11 subsectors, representing 94.6% of retail trade.

Retail Ecommerce Sales Rise 5.1%

On a seasonally adjusted basis, retail ecommerce sales rose 5.1% in September. On an unadjusted basis, retail ecommerce sales were up 1.8% year over year to \$3.2 billion in September, accounting for 5.3% of total retail trade. The share of ecommerce sales out of total retail sales increased 0.4% in September compared with August and was down 0.2% from September 2020.

Retail Notes

Amazon Web Services (AWS) has broken ground on a second cloud-computing server hub in Canada, this one located in Calgary. The project is expected to create up to 950 direct and indirect jobs in Canada by 2037. Amazon says that combined with their existing regional hub in Montreal, AWS will invest \$21 billion in Canada by 2027.

Canadian Tire's third quarter net income fell from \$326.3 million in Q3 last year to \$279.5 million in Q3 2021. Comp store sales rose 1.4% for the quarter. Unlike many US retailers, CT is expecting consumers to shift spending back to travel, leisure and entertainment for the remainder of this year and on into 2022.

Canadian Tire chartered four ships to move Christmas and winter items to Canada in time for the fourth quarter. They also ordered more products made and delivered sooner for brands sold exclusively by the chain, including Mastercraft Tools and Noma. CEO Greg Hicks said the company has enough product to fill the shelves and meet holiday demand. Canadian Tire is Canada's largest general merchandise and apparel retailer. Canadian Tire is also taking advantage of storage capacity at their stores and corporate-owned real estate to hold excess inventory, as well as turning to a third-party logistics company.

MARKET TRENDS

Inflation Forecasts

The recent persistent spike in inflation is now expected to last longer than first forecast, according to several leading economists and the Fed. What was once viewed as transitory and expected to fade to 2% or less by the end of 2021 is now forecast to persist well into 2022, thanks to supply chain log-jams, shortages of products, materials and labor and very robust consumer demand fueled by rising wages and pandemic savings. The Fed cautioned that their use of the word “transitory” only means that the factors behind the increase in consumer prices are not expected to become permanent nor to leave long-lasting scars on the economy. Nevertheless, the level of inflation the US is dealing with now is not consistent with price stability. The Fed noted it is too soon to raise interest rates but the end of the Fed bond purchasing program will give the central bank more flexibility. It's also clear that interest rates could start heading up by the end of 2022; many economists expect two interest rate hikes next year. Prices have risen 4.4% over the past year.

Materials Prices Continue to Climb

Even though contractors' bid prices soared in October they did not go up as much as the year over year increase in construction input costs, according to analysis from Associated General Contractors. There were double- or even triple-digit percentage increases year over year (y/y) in prices for numerous inputs: steel mill products, up 4.8% for the month and 142% y/y; diesel fuel, up 12% and 100%, respectively; aluminum mill shapes, up 1.4% and 37%; plastic construction products, up 2.5% and 30%; gypsum products, up 1.8% and 25%; insulation materials, down -1.3% for the month but up 17% y/y; truck transportation of freight, up 2.5% and 16%; asphalt felt and coatings, up 0.2% and 16%; and architectural coatings, up 0.7% and 12%. There were also smaller but still significant increases for glass, construction machinery and equipment, concrete products and brick and structural clay tile.

Infrastructure Bill Addresses Supply Chain and the Digital Divide

President Biden signed a \$1.2 trillion bipartisan infrastruc-

ture bill into law in mid-November. Altogether, the bill provides up to \$78 billion over five years to beef up the interconnected system that moves freight across the country, according to the Coalition for America's Gateways and Trade Corridors that advocates for the nation's freight infrastructure. The new investment would provide a 40% increase to two key federal freight infrastructure programs as well as additional money for new programs.

Today's supply chain crisis largely stems from the pandemic, which caused major changes in Americans' buying habits. Consumers stuck at home started spending more on goods than services and the sudden spike in purchasing combined with a shortage of workers, especially truck drivers, was enough to topple the delicate system. As a result, shipping costs skyrocketed, contributing to a big spike in consumer prices and inflation. However, industry experts say the problems existed long before the pandemic made everyone painfully aware of what happens when the supply chain is broken.

In addition to billions for traditional infrastructure, the bill will also provide \$65 billion earmarked for the nation's broadband structure to close the digital divide that leaves millions of people without access to the internet. It also aims to help lower the price households pay for internet service by requiring federal funding recipients to offer a low-cost affordable plan, creating price transparency and boosting competition in areas where existing providers aren't providing adequate service. It will also create a permanent federal program to help more low-income households access the internet.

Mortgage Forecast

The Fed's timetable for reducing monthly bond purchases will affect mortgage rates going forward. The bond purchases have helped keep rates at ultra-low levels over the past 18 months. The yield on 10-year Treasury notes has been rising steadily. Home loan rates, which tend to track Treasury notes, have also been moving higher. Housing analysts believe long-term mortgage rates will average between 3% and 4% over the next 12 months. The Mortgage Bankers Association (MBA) expects 30-year fixed-rate mortgages to end the year at 3.1% and rise to 4% by the end of 2022. The National Association of Realtors expects rates to hit 3.5% by mid-2022. Even with higher rates, the MBA expects primary mortgages to increase 9% in 2022 to a record \$1.73 trillion.

Bidding Wars Pricing Out Buyers

For only the third time in the history of NAHB's Housing Trends Report, getting outbid is the top reason buyers are struggling to buy a home, cited by 45% of respondents. For reference, in the first quarter of 2018, only 18% of prospective buyers indicated that bidding wars were an issue in their home-buying process. Affordability remains a big concern (36%), along with finding a home in the right neighborhood with the features the buyer is looking for. Nearly half of buyers (49%) indicated that even if they are unable to find a home in the next few months they will continue searching for the "right" home in the same location. Almost 30% said they would also be willing to buy a smaller or older home, up from 24% the previous quarter, which could give a boost to the renovation and remodeling market, which has also been booming.

Home Appreciation Expected to Slow

Home price appreciation will slow down next year, according to several housing analysts. Zillow's senior economist, Jeff Tucker expects prices to rise between 7% and 9% next year compared to the 11.7% growth recorded from August 2020 through August 2021. Price gains will be even slower in expensive West Coast markets, with many plateauing. Redfin Chief Economist Daryl Fairweathers sees national home price appreciation between 3% and 5% in 2022. Some economists believe that rising interest rates could actually cause home prices to drop in 2023, as the current shortage of inventory is keeping prices inflated.

Holiday Shopping Changes in Habits and Attitudes

The National Retail Federation is forecasting a record holiday shopping season, with sales for November and December expected to grow between 8.5% and 10.5%, reaching between \$843.4 billion and \$859 billion, excluding restaurants, gas stations and auto dealers. Retail analysts say that if retailers can keep products on shelves, it will be a record-breaking holiday season.

Ecommerce is expected to continue to be important, with Adobe forecasting record online holiday sales of \$207 billion between November 1 and December 31. Ecommerce sales through the second quarter were up 57% from two years ago.

Adobe also found that traditional days like Cyber Monday and Black Friday are becoming less important to shoppers, who now expect deals almost continuously and have also been urged to shop early to avoid disappointment.

People are returning to stores and to weekday shopping, as consumers make the most of more flexible and remote work schedules to shop when they think it will be less busy.

About 42% of Americans had already started holiday shopping in October. And by the end of the month, those early birds had completed about 38% of their shopping.

Average household holiday spending will rise 5% to \$1,463, according to Deloitte's most recent holiday survey, with most of the gains coming from upper-income households. Upper-income households are expected to spend five times as much as lower-income households, averaging \$2,624 per household compared to lower-income households who plan to spend 22% less, or about \$536 per household.

Retailers Compete for Holiday Business

Amazon, Target and Walmart are among the retailers pulling out all the stops to try and make sure customers spend their holiday shopping dollars with them. Target reports enormous growth in same-day services and is offering even more flexible delivery options for the holidays. One new service called Shopping Partner allows customers to send someone else to pick up their drive up or pick up order from the store. Customers can also select backup items for food and beverages so if something is out of stock the store will automatically substitute the second choice. They've also assigned more spaces for curbside pickup and expanded the assortment and selection available for same-day delivery. In addition, Target has tripled the number of employees in store fulfillment roles. Walmart is offering extended delivery hours, with drivers delivering to people's homes until 10 p.m., which means customers can order as late as 6 p.m. for same-day delivery. Walmart has also added the option of choosing an alternate delivery service (Spark Driver) if the time slot someone wants is already filled. Walmart+ members will continue to have access to unlimited free deliveries all season long and can pay extra to get their order in two hours or less. Walmart has also expanded the items available for local delivery and added more than 2,800 oversized items.

Own Your Own Warehouse

The 25 largest US retailers acquired about 38 million rentable square feet in new industrial space last year, according to commercial real estate data source CoStar Group. That's the highest total in at least 10 years. Some businesses are buying their own storage space in an effort to alleviate the inventory squeeze being caused by supply chain bottlenecks and shortages. Many retailers want as much inventory in stores or immediately at hand as possible so they can take advantage of strong consumer demand. In addition, many retailers are flush with cash and see acquiring their own fulfillment and distribution centers as a good investment. Some retailers are beefing up their West Coast space in an effort to better handle shipments from Asia.

stop functioning at a disturbance as slight as a minor change in temperature. Both Caltech and Amazon said it will be a mutually beneficial venture that could produce huge leaps forward for everyone.

Women Leave the Workforce

The US workforce fell by about 3.5 million women during the pandemic as women absorbed the bulk of the responsibility for child care and home-schooling kids. So far only about one million of them have returned to work. Analysts speculate that the difficulty and expense of finding reliable childcare is keeping some women at home; others discovered that juggling jobs and family just wasn't worth it. One former executive said, "Once you leave the corporate treadmill you can actually catch your breath. That changes things." Many of the women on extended breaks from work have spouses earning good incomes and can afford to take the time off, creating a situation that strangely mirrors the 1950s, when women ran the home and men were the principle breadwinners.

Quantum Computing Leaps Forward

Amazon is officially entering the race to develop a quantum computer. The quantum team will be based at Amazon's new center on the campus of Caltech in Pasadena, California. There is growing corporate interest in quantum computers, which are still in the early stages of development. The hope is that these incredibly advanced computers will be able to solve problems current computers can't, from removing carbon dioxide from the atmosphere to finding new chemical compounds to treat diseases. Google claims to have already achieved quantum abilities, saying that their quantum computer took less than three and a half minutes to perform a calculation that would take the most powerful traditional computer 10,000 years to complete. In addition to being extremely powerful, Qubits, quantum units of data that are both powerful and flexible, are also very finicky and can