

Market Briefing

Content

| | |
|------------------------|----|
| US Economy | 2 |
| Housing & Construction | 4 |
| Power Tool Industry | 5 |
| Retail | 7 |
| Canada Snapshot | 10 |
| Market Trends | 11 |

US ECONOMY

- Consumer Spending Rises 0.6%
- Consumer Prices Rise 0.4%
- Consumer Confidence Rises to 113.8
- Unemployment Falls to 4.6%
- Chicago PMI Rises to 68.4
- Wholesale Prices Rise 0.5%
- Q3 GDP Rises 2.0%

HOUSING & CONSTRUCTION

- Builder Confidence Rises to 80
- Building Permits Fall 7.7%
 - ▶ Single-family permits fall 0.9%
- Housing Starts Fall 1.6%
 - ▶ Single-family starts steady
- New-Home Sales Rise 14%
- Existing Home Sales Rise 7%
- Regional Housing Stats
- Mortgage Rates Rise to 3.1%

POWER TOOL INDUSTRY

Robert Bosch

- ▶ Partners with Carnegie Mellon

Stanley Black & Decker

- ▶ Q3 sales rose 10.7%; cuts annual guidance
- ▶ Conference call with analysts
- ▶ Celebrates Maker Month
- ▶ Teams up with Eastman Chemical
- ▶ Loree Lifetime Achievement Award
- ▶ Forbes World's Best Employers

RETAIL

Retail Sales Rise 0.7%

Christmas in October

The Home Depot

- ▶ Teams with Walmart's GoLocal
- ▶ Executive changes
- ▶ Introduces Ring jobsite security
- ▶ Launches proprietary smart brands app
- ▶ Venture capital for diversity and innovation

Lowe's

- ▶ Kicks off holiday campaign
- ▶ Brings back PROvember
- ▶ Executive changes
- ▶ Launches One Roof Media Network
- ▶ Execs featured on "America's Big Deal"

Walmart

- ▶ Rebates for Walmart+

W.W. Grainger

- ▶ Q3 sales rise 11.7%

Amazon

- ▶ Q3 sales rise 12%

- ▶ Holiday costs and spending
- ▶ Return to office plans
- ▶ Invests in education and skills training
- ▶ Manufacturing defects detection system
- ▶ Shopping for bigger airplanes

CANADA SNAPSHOT

Economy

Housing & Construction

Retail

MARKET TRENDS

Fixing the Broken Supply Chain

Record Job Openings in Warehousing and Transportation

Lumber Prices Cool Down

Payment and Entry by Palm Technology

Mobile Tech Changes Shopping

Remodeling Industry More Confident

Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

Robert Bosch Tool Corporation

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

© Robert Bosch Tool Corporation. All rights reserved.
No copying or reproducing is permitted without prior written approval.

US ECONOMY

Exchange Rates October 29, 2021

| | | |
|------------------------|------------------|-----------------------|
| Euro | 1 Euro = \$1.155 | \$1.00 = 0.866 Euros |
| Canadian Dollar | 1 CAD = \$0.807 | \$1.00 = 1.240 CAD |
| Japanese Yen | 1 Yen = \$0.009 | \$1.00 = 114.041 Yen |
| Chinese Yuan | 1 Yuan = \$0.156 | \$1.00 = 6.404 Yuan |
| Mexican Peso | 1 Peso = \$0.049 | \$1.00 = 20.546 Pesos |

Market Watch October 29, 2021

| | | |
|--------------------|--------|------|
| DOW | 35,712 | 5.8% |
| NASDAQ | 15,498 | 7.3% |
| S&P 500 | 4,605 | 6.9% |

Although October is typically volatile, it proved to be the best month for all three markets all year. All three indexes not only recovered September’s losses but made big gains, thanks to strong corporate earnings and hopes there will be a deal soon on infrastructure and social spending.

Consumer Spending Rises 0.6%

Consumer spending rose 0.6% in September after rising 0.8% in August. 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 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 COVID 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.

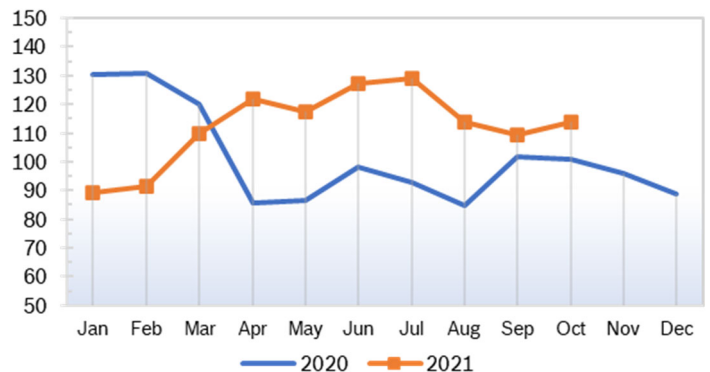
Consumer Prices Rise 0.4%

The Consumer Price Index (CPI) rose 0.4% in September and was up 5.4% year over year. Core inflation, which excludes

the volatile food and energy categories, rose 0.2% in September after rising 0.3% in August and was up 4.0% year over year for the second consecutive month. Food, rent, new cars and gasoline contributed most to the increase. Supply chain constraints and disruptions are expected to keep inflation elevated into 2022. The core PCE price index is the Fed’s preferred measure for its 2% inflation target, which is now a flexible average.

Consumer Confidence Rises to 113.8

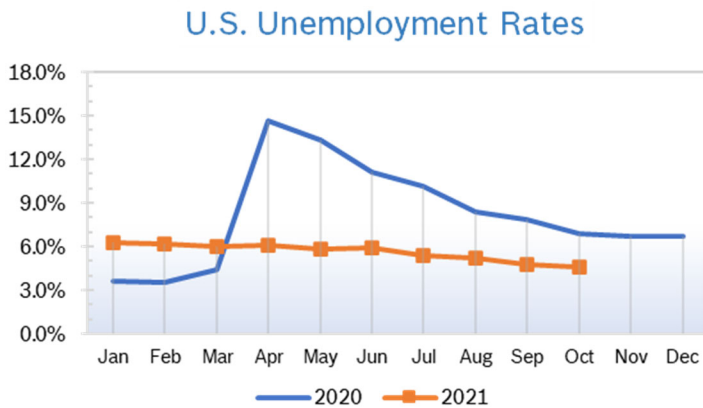
Consumer Confidence Index



- ▶ The New York-based Conference Board’s Consumer Confidence Index rose to 113.8 in October after falling to an upwardly revised 109.8 in September.*
- ▶ The Present Situation Index, which is based on consumers’ assessment of current business conditions, rose to 147.4 after falling to an upwardly revised 144.4 in September.
- ▶ Expectations for the next six months rose to 91.3 after falling to 86.6 in September.
- ▶ The rebound in confidence came after three consecutive monthly declines for Consumer Confidence, which 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 4.6%



- ▶ The unemployment rate fell to 4.6% in October after falling to 4.8% in September and the economy added 531,000 new jobs, well ahead of expectations of a 450,000 job gain.*
- ▶ Job growth for August and September was revised up by an additional 235,000 jobs.
- ▶ The robust growth in jobs points to an economy that is on solid footing and allays fears the economy is stalling out.
- ▶ Employers are paying more to fill jobs. Average hourly earnings for private-sector workers were up 0.4% in October and up 4.9% over the last year.
- ▶ The number of unemployed people (7.4 million) is trending down but is still above the pre-pandemic level of 5.7 million.
- ▶ Employment in transportation and warehousing increased by 54,000 in October and is 149,000 above the level in February 2020 prior to the onset of the pandemic.
- ▶ Construction employment rose by 44,000 in October, following an increase of 30,000 in September. Construction employment is 150,000 below February 2020.
- ▶ Retail added 35,000 jobs, but building and supply centers lost 10,000 jobs. Employment in retail is 140,000 jobs below February 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 Fall in August

US job openings fell by 659,000 to 10.4 million jobs at the end of August 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 a series-high of 2.9% as 4.3 million people quit their jobs, equivalent to about 3% of the workforce. As Covid cases surged in August, quits soared in restaurants, hospitality, retail and education. Workers are in such high demand, people are also leaving jobs for ones they see as offering more potential, better benefits or pay or safer conditions. Job openings decreased in several industries, but rose in the federal government. JOLTS is a lagging indicator, but is closely watched by the Federal Reserve and factors into decisions about interest rates and other measures.

Chicago PMI Rises to 68.4

The Chicago Purchasing Managers Index (Chicago PMI) rose to 68.4 in October after falling to 64.7 in September. The increase came after two consecutive monthly declines. It was the 16th consecutive month the index remained in positive territory. Production dropped more than two points to 58.0, the lowest reading since August 2020. New Orders rose 3.1 points and recovered from the six-month low of 64.4 reached in September. Prices Paid rose 3.6 points to a 42-year high with many companies reporting that pricing was a serious issue. The majority of firms said that logistics will be the single biggest problem they face next year. More than 75% of companies indicated they will be trying to hire more employees next year. 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 0.5%

The Producer Price Index rose 0.5% in September after rising 0.7% in August and was up 8.6% year over year, the largest annual increase since the Labor Department began tracking inflation data in 2010. It was the ninth consecutive monthly increase in wholesale prices. Core inflation, which excludes the volatile food and energy categories, rose 0.1% in September after rising 0.3% in August and was up 5.9% from September 2020. The increase in producer prices was less than economists had expected. Global energy shortages and supply chain issues are keeping pressure on producer prices.

Q3 GDP Grows 2.0%

The U.S. economy grew 2.0% in the third quarter, according to the first reading from the Commerce Department. It was well

below expectations and the slowest rate of quarterly growth since the recovery began in the third quarter of 2020. Declines in residential fixed investment and federal government spending offset gains in other areas, including an anemic 1.6% increase in consumer spending for the quarter. Spending for goods tumbled 9.2%, spurred by a 26.2% plunge in expenditures on longer-lasting goods like appliances and autos. Spending on services rose 7.9%, down from the 11.5% pace in Q2. The decline also included a 0.7% drop in disposable personal income, which fell 25.7% in Q2 as government stimulus payments ended. The personal saving rate declined to 8.9% from 10.5%.

HOUSING & CONSTRUCTION

Builder Confidence Rises to 80

Builder confidence rose four points to 80 in October after rising one point to 76 in September, 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. Builders are growing increasingly concerned about affordability issues and materials price increases and supply chain bottlenecks. All three major HMI indices posted gains in October. The index gauging current sales conditions rose five points to 87, the component measuring sales expectations in the next six months rose three points to 84 and the gauge charting traffic of prospective buyers rose four points to 65. Regional scores were mixed. Any number over 50 indicates that more builders view the component as good than view it as poor.

Building Permits Fall 7.7%

Overall building permits fell 7.7% in September to 1.59 million units after rising to a 1.73 million units annualized pace in August. Single-family permits dropped 0.9% to 1.04 million units in September after rising to 1.05 million units in August. Multifamily permits dropped 18.3% to 548,000 units after jumping to 674,000 units in August. NAHB noted that single-family homes permitted but not yet under construction are up 50% from August 2020, a sign of persistent supply chain issues. Regional permits were up on a year-to-date basis.

Housing Starts Fall 1.6%

Housing starts fell 1.6% in September to a seasonally adjusted

annual rate of 1.56 million starts after rising to 1.62 million units in August. Single-family starts were essentially unchanged at 1.08 million seasonally adjusted annual units, up 20.5% year-to-date. The multifamily sector, which includes apartment buildings and condos, dropped 5.0% to a 475,000 annual pace after dropping more than 20% in August. NAHB reports that demand remains strong but the housing market overall is dealing with rising affordability issues and shortages of materials and lots. 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 14%

New home sales rose 14% in September to a seasonally adjusted 800,000 new homes after falling to a downwardly revised number in August. Sales were up 18.7% from September 2020. Inventory dropped to a 5.7-months' supply, with 379,000 new single-family homes for sale, up from 286,000 in September 2020. The median sales price continued to climb, rising to \$408,800 from \$401,500 in August, and was up 18.7% year over year. At the same time, only 21% of current sales were below \$300,000, compared to 35% a year ago. Year-over-year sales were up in all regions. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

Existing Home Sales Rise 7%

Existing home sales rose 7% in September to a seasonally adjusted annual rate of 6.29 million units after falling to 5.88 million units in August but were down 2.3% from September 2020, according to the National Association of Realtors. The median price of a home sold in September fell slightly to \$352,800 after falling in the previous two months, but was up 13.3% year over year. Year-over-year prices have risen for 115 consecutive months. Total inventories fell 0.8% to 1.27 million units after falling in August. Unsold inventory fell to a 2.4-months' supply after holding at 2.6 months in August and was down from 2.7 months in September 2020. Properties were on the market for an average of just 17 days in September. Sales rose in all regions. Wells Fargo noted that the jump in existing home sales was reassuring, as it was an indication that the slowdown earlier in the year was being driven by supplies rather than falling demand.

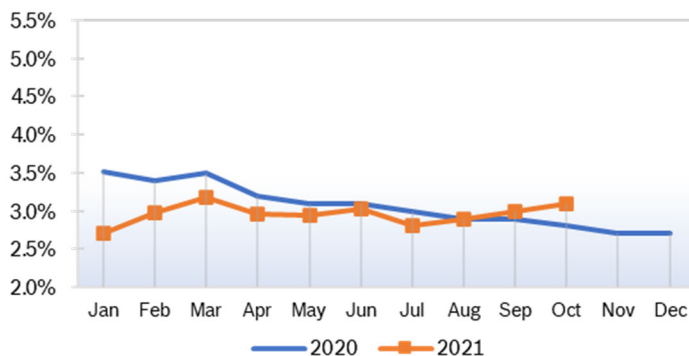
Regional Housing Data

| | Northeast | South | Midwest | West |
|----------------------|-----------|-------|---------|-------|
| Builder Confidence* | 72** | 80** | 69 (+1) | 83** |
| Building Permits YTD | 19.6% | 22.9% | 19.9% | 25.0% |
| Housing Starts Y/Y | 28.9% | 20.2% | 12.1% | 22.6% |
| New Home Sales* | 1.9% | 1.6% | 3.4% | -8.8% |
| Existing Home Sales* | 5.5% | 8.6% | 5.1% | 6.5% |

* Year over Year **unchanged

Mortgage Rates Rise to 3.1%

30-Year Fixed-Rate Mortgage



- ▶ 30-year fixed-rate mortgages (FRM) rose to 3.1% at the end of October after rising to 3.0% at the end of September. Mortgage rates were 2.8% at the end of October 2020.
- ▶ The yield on the 10-year Treasury note has been trending up due to the decline in new CV19 cases, increasing consumer optimism, broadening inflation and persistent shortages.
- ▶ Purchase intent remains strong despite persistent problems with inventory and rising home prices.
- ▶ Fannie Mae still expects rates to continue to rise gradually in the second half of the year.

POWER TOOL INDUSTRY

Robert Bosch Tool Corporation

Robert Bosch North America is teaming up with Carnegie Mellon University to explore spatial computing in manufacturing environments. The \$3 million collaboration will be trying to determine how augmented reality (AR), virtual reality (VR) and extended reality (XR) can be used in the Industrial Internet of Things (IIoT) to make factories and manufacturing plants safer, more reliable and more productive.

Stanley Black & Decker

Q3 Sales rose 10.7% to \$4.26 billion. Tools & Storage segment sales rose 14%.

Q3 Conference Call with Analysts:

Q3 organic growth of 10% was driven by 13% organic growth in Tools & Storage due to what they called the strongest demand environment in history.

Tools & Storage delivered record results with 14% revenue growth. Volume was up 11%, price was up 2% and currency contributed an additional point to growth.

Power Tools delivered 11% organic growth across their brands. Hand tools, accessories and storage grew 16%, fueled by high demand and new product launches for Craftsman and Lenox.

Volume, price, productivity and benefits from innovation were more than offset by accelerating transit costs incurred to meet the strong market demand. Additionally, rising commodity inflation and new growth investments related to digital marketing and adding to the sales and support staff all added costs.

All regions delivered organic growth with North America up 9%. North American retail grew 6% as point of sale demand remained high and channel inventory remained below historic levels.

They made a decision to incur higher expediting costs in order to secure components and get products where they need

to go in order to meet demand and fulfill customer needs. Data analytics gives them visibility into every container on and off the water so they can prioritize and expedite the most critical items, which means paying premium freight.

They could expand their power tools supply chain up to 25% if demand warrants because they have been able to secure commitments for enough battery cells, electrical components and chips.

They are using price increases, surcharges and productivity measures to help offset the additional expenses. They believe these actions will help them normalize margins in 2022. They anticipate a 4% to 5% base price increase overall during the fourth quarter that will roll forward into 2022. They are also adding a 5% surcharge in North America in Tools & Storage. That should produce a 100% recovery on the price side.

They will be “doubling down” on their investment in innovation and new product commercialization in order to support the largest new products pipeline they have ever had across all their major product lines and end users.

Over the last 12 months they added 1,300 new employees with deep domain expertise and technical knowledge in critical areas, including sales, engineering, product management, brand, industrial design, ecommerce and end user insights.

The new PowerStack battery from DeWalt is 25% smaller and 15% lighter than the comparable 20-volt 2 amp battery and reportedly delivers 50% more power with two times the charge cycles. It will be their longest lasting compact battery and is compatible with the DeWalt 20-volt system. PowerStack will be targeted at Pros and carry a 10% to 20% premium price tag. PowerStack batteries will begin shipping in the fourth quarter of this year. They estimate annual growth potential will be in hundreds of millions.

This year they are opening two new power tool plants and one new hand tool facility in North America. With the addition of these three new facilities they will have tripled their North American capacity since 2016. These new manufacturing plants will be accompanied by a parallel regional development of their local supply chain base to enhance local market sourcing and cut down on the time it takes to get products to market.

They have co-invested with key battery suppliers to secure dedicated capacity for the next several years. They are also adding new qualified suppliers to diversify sourcing and working to increase inventories for battery cells.

Their updated full year 2021 guidance calls for organic revenue growth of 16% to 17%. They expect consistent revenue for Tools & Storage across Q3 and Q4, which represents total growth in the mid-to-high 20s versus the comparable periods in 2019.

They cut their guidance for the year due to rising costs in several areas. Key commodity inputs, including steel resins and purchase components, added an incremental \$100 million in costs during the quarter.

Container and transportation costs rose dramatically over the quarter. Average container spot prices are now nearly seven times what they were paying earlier this year. Average transit time from Asian suppliers to the North American manufacturing facilities and distribution centers have more than doubled from approximately 40 days to 85. Combined, these container and transit cost impacts added \$130 million to cost pressure.

They raised their full year commodity and supply chain headwinds to approximately \$690 million and expect approximately \$600 million to \$650 million of carryover cost headwinds for 2022.

They will be managing their new products to make sure they are pricing them at the right premium that is justified by the degree of innovation.

They expect to close on their acquisitions of MTD and Excel late this year or early in 2022. The two companies are both complimentary to their existing outdoor business.

They plan to use the acquisitions to build on their existing position in retail and expand their sales in the pro-dealer network. MTD has approximately 1,500 dealer locations. Excel exclusively distributes through its 1,400 outlet dealer channel, which is largely geographically complimentary to MTD's dealers. They also see an opportunity in the \$4 billion high margin parts service segment.

Other News:

SB&D celebrated their fourth annual Maker Month in October with a series of promotions designed to recognize and honor those in the skilled trades. This year's Maker Month introduced several new initiatives, including a spotlight on four professionals in different trades, including construction, manufacturing and woodworking. They held weekly social media giveaways and allowed nonprofits to apply for their "Empower Makers" Global Impact Challenge designed to promote vocational skills training programs with the goal of creating more than 3 million additional skilled workers.

SB&D teamed up with Eastman Chemical to create a new line of sustainable power tools under the Black & Decker brand that uses Eastman's Tritan Renew copolyester. The new line, called Reviva, is expected to be introduced in early 2022. The manufacturing process uses Tritan Renew material produced through a process known as molecular recycling that reduces the use of fossil-based resources and lowers greenhouse gas emissions, delivers the performance of virgin plastic materials and uses 50% recycled content.

SB&D CEO Jim Loree received a Lifetime Achievement Award from the Hartford Business Journal and CTO Mark Maybury received the Chief Technology Officer Award. The awards are presented to business executives in Connecticut who were nominated by the local business community. This year's winners come from nonprofit, private investment, banking and manufacturing sectors.

SB&D was named one of Forbes 2021 World's Best Employers, a list that is based on surveys from 150,000 full-time and part-time workers in 58 countries. SB&D ranked 252 out of 750 companies overall and number 11 in the "Semiconductors, Electronics, Electrical Engineering, Technology, Hardware & Equipment" category. *Forbes* partnered with market research firm Statista on the survey, which considered every aspect of an employee's experience, including working conditions, salary, potential for growth and diversity.

RETAIL

Retail Sales Rise 0.7%

Retail sales rose 0.7% in September after rising an upwardly revised 0.8% in August, well ahead of expectations. Sales were up 13.9% year over year. Sales rose in most categories, but some of the increase came from rising prices due to shortages of products and raw materials and supply chain problems. Sales at non-store retailers rose 1.0% after rising a very robust 5.3% in August. Excluding automobiles, gasoline, building materials and food services, retail sales rose 0.8% in September and were up 11.5% year over year. These core retail sales correspond most closely with the consumer spending component of GDP. Building materials and garden supply stores were up 0.1% from August. 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.

Christmas in October

The Home Depot, Lowe's, Walmart, and a host of other retailers kicked off their holiday promotions in October, with Amazon leading the way the first week of the month. Amazon tweeted that they sold more than one million toys from their Holiday Toy List in October. A recent poll revealed that half of Americans have already begun their holiday shopping, and a full 70% of early birds have already run into out-of-stock issues. Many retailers, including The Home Depot, Lowe's, Walmart and Ace, will be closed Thanksgiving Day to allow associates to spend the day with their families, although of course their websites will be open for business. Industry experts are unsure how all the early shopping will impact Black Friday and Thanksgiving weekend sales, traditionally the biggest shopping spree of the year.

The Home Depot

THD is teaming up with Walmart's GoLocal delivery service business, which provides same-day and next-day delivery services for businesses. THD will roll out delivery with Walmart GoLocal in select markets, with plans to expand the number of markets through the end of the year. The service will deliver items that can easily fit in a car, such as tools and paint. Delivery speed is one of the areas in which retailers are trying to step up their game as they compete with expectations created by Amazon Prime.

Veteran supply-chain executive Mark Holifield left THD the end of October to take a job as CEO of US-based last-mile delivery firm Laser Ship. Holifield has been THD's senior supply chain exec since 2006 and was among THD's top five executives. John Deaton, currently senior vice president of US retail operations, was promoted to executive vice president, supply chain and product development.

THD introduced Ring Jobsite Security using the new Ring Alarm Pro, which combines features of the Ring Alarm and a built-in eero WiFi 6 router to keep the job site connected. An additional subscription allows the system to use a cellular-only internet connection to keep connected cameras and sensors online. Add-ons include security cameras, smart lighting and various sensors. Job site managers can customize their system based on project needs and easily transfer it to the next site. **THD introduced a new app designed to corral all their exclusive smart products and proprietary brands.** Connected products are equipped with settings that can be controlled through the Hubspace app and be fully customized by the user.

THD committed \$10 million to venture capital focused on diversity and innovation by investing in specific venture capital funds that promote diversity, technology and entrepreneurship.

Lowe's

Lowe's kicked off their "Make More Holiday" campaign in mid-October, featuring special services, expanded inventory and more ways to shop. According to Lowe's, their objective is to take the stress out of the holiday shopping season. They will have special deals weekly on different items, including tools, smart home equipment, appliances and décor. Lowe's says they have their largest selection ever of artificial trees, wreaths and garlands as well as fresh-cut trees that will be available in mid-November. Lowe's holiday survey showed that 90% of consumers intend to spend as much or more this year on gifts as they did last year, and 85% plan to participate in holiday traditions.

Lowe's will bring back PROvember during November, with special deals that cater to Pros.

Mike Shady will take on an expanded role with Lowe's as senior vice president, online. He will be handling all aspects

of online strategies. He was recently vice president of Lowe's online business and has more than 20 years of retail experience, including 16 years in ecommerce and omnichannel merchandising. Prior to joining Lowe's in 2018 Shady held various leadership roles at The Home Depot. He's replacing Mike Amend. Lowe's said they want to build on the 110% growth their online segment produced in 2020.

Lowe's launched Lowe's One Roof Media Network, a retail media service designed to provide a portfolio of omnichannel advertising services to connect brands with their customers. Reportedly more than 100 brands, including Samsung, Kohler and GE Lighting, participated in early beta tests and saw exceptional returns on their investment. The platform includes data-driven insights integrated with analysis of consumer behaviors and home category trends as well as customized advertising products. Lowe's partnered with retail media technology and service providers CitrusAd and Criteo to develop the network.

Lowe's execs will appear on a USA Network television show, "America's Big Deal." The show is a shoppable, live competition show that will air weekly. Every week, inventors and small-business owners will pitch their products to America. The four retail panelists will offer marketplace insights and business advice. Several different execs from Lowe's will be featured on different episodes. CEO Marvin Ellison said that Lowe's is participating as part of their efforts to support small businesses and entrepreneurs and give them a chance to have their products sold on Lowe's website and in stores.

Walmart

Walmart announced that new subscribers to Walmart+ will get a \$9.95 rebate, reportedly in response to Amazon announcing that Whole Foods will start charging Amazon Prime members \$9.95 for delivery. Walmart+ membership costs \$98 a year, or \$12.95 a month, and includes free delivery and shipping with no minimum order limit.

W.W. Grainger

Q3 sales rose 11.7% to \$3.4 billion. Organic sales were up 11.9%, driven by strong performance in both the High-Touch Solutions N.A. and Endless Assortment segments. Grainger CEO DG Macpherson said that demand for core products was very strong throughout the quarter, and they were confident of

their ability to deliver through the fourth quarter despite supply chain disruptions and shortages.

Amazon

Q3 sales rose 12% to \$110.8 billion, below expectations.

For the fourth quarter, Amazon lowered their sales forecast to between \$130 billion and \$140 billion, representing annual growth between 4% and 12%.

Amazon warned that rising costs, including labor, labor-related productivity losses and higher steel and trucking expenses, added approximately \$2 billion in operating costs in the third quarter and will add an expected \$4 billion in the fourth quarter.

Amazon expects to spend billions during the fourth quarter to ensure that they meet customer and partner expectations and deliver holiday goods on time.

Amazon plans to hire an additional 150,000 seasonal workers in the US in hopes of being able to keep up with seasonal demand. Amazon is also trying to hire 125,000 permanent workers and 40,000 people for IT and corporate. As of July, Amazon had 950,000 employees in the US and 1.3 million permanent workers world-wide.

Amazon is reinforcing their supply chain to meet holiday demand. They've increased ports of entry across their network by 50%, doubled their container processing capacity and expanded their ocean freight carrier network partnerships to secure capacity in critical ports. The Amazon Freight network operates a pool of more than 50,000 trailers, with more than 800 delivery stations globally and 260,000 drivers worldwide, along with hundreds of thousands of Amazon Flex contract drivers.

Amazon will let individual teams decide how many days each week corporate employees should come in to the office to work. Earlier, Amazon had stated that employees needed to come back to the office at least three days each week beginning January 3. Company directors will have the discretion to allow teams that they manage to continue working remotely. Most of Amazon's more than 1 million global employees cannot work remotely because they work in the company's fulfillment and transportation division. About 50,000 tech and office employees work at Amazon's headquarters in downtown Seattle as well as other locations.

Amazon will invest more than one billion dollars in education and skills training in the US. They will now fund full college tuition, as well as high school diplomas, GEDs and English as a Second Language (ESL) proficiency certification. Amazon is also adding upskilling programs to provide employees with the opportunity to learn skills within data center maintenance and technology, IT and research design.

Amazon launched a cloud service that identifies defects and anomalies in manufactured products called Lookout for Vision. It's available in select Amazon Web Services (AWS) regions. Lookout for Vision uses artificial intelligence (AI) to detect cracks, dents, incorrect colors and irregular shapes in products. Customers pay per hour to train the model; Lookout for Vision reports analyzed image data that deviates from the baseline on the service dashboard or in real time.

Amazon is reportedly shopping for long-range jets that can fly directly from China to the US, according to Bloomberg News. Amazon is looking for refurbished cargo versions of 10 Airbus A330-300 aircraft as well as an unknown number of 777-300ER aircraft. The mid-sized Boeing 767 has been the backbone of Amazon Air's fleet for the past five years.

CANADA SNAPSHOT

Unemployment Falls to 6.7%



- ▶ The unemployment rate fell to 6.7% in October after falling to 6.9% in September, marking the fifth consecutive month the unemployment rate declined. Unemployment peaked at 9.4% in January.
- ▶ Employment rose by 31,000 jobs, or 0.2%, in October, the fifth consecutive monthly gain in jobs.
- ▶ Average hourly wages were 5.1% higher than in October 2019.
- ▶ The number of people working in retail trade increased by 72,000 (+3.3%) in October, pushing retail employment back to its pre-COVID level for the first time since March.
- ▶ Employment increased in Ontario and New Brunswick, decreased in Manitoba and Saskatchewan and was unchanged in the other provinces.

Consumer Prices Rise 4.4%

The Consumer Price Index (CPI) rose 4.4% year over year in September, the fastest pace since February 2003 and up from a 4.1% gain in August. Excluding gasoline, the CPI rose 3.5% year over year in September. The monthly CPI rose 0.2% in September, the same growth rate as in August. It was the ninth consecutive month the CPI increased. On a seasonally

adjusted monthly basis, the CPI rose 0.4%. Prices rose year over year in every major component in September. The home-owners' replacement cost index, which is related to the price of new homes, continued to increase slightly year over year, rising 14.4% in September after increasing 14.3% in August.

GDP Grows 0.4% in August

Real GDP grew 0.4% in August after dropping 0.1% in July. Growth was below expectations. There were significant gains in the service-producing sectors but spending on goods dropped.

Retail trade rose 1.8% in August, more than offsetting the 0.6% contraction in July, with 9 of 12 subsectors posting gains.

Construction was essentially unchanged in August, as a 0.8% contraction in residential building construction offset growth in repair construction (+0.9%), engineering and other construction activities (+0.2%) and non-residential building construction (+0.4%).

Interest Rates

The Bank of Canada (BoC) held interest rates steady at 0.25% at their meeting the end of October. The Bank of Canada now believes Canada's economy will grow by 5% this year before moderating to 4.25% in 2022 and 3.75% in 2023. The BoC expects demand to be supported by strong consumer spending, business investment and a rebound in exports as the US economy continues to recover. The bank now expects CPI inflation to be elevated into next year before easing back to around the 2% target by late 2022.

Housing and Construction News

Canada housing starts fell 4.4% in September to 251,151 units from 262,754 in August, according to Canada Mortgage and Housing Corporation (CMHC). Demand for housing remains strong but labor and supply constraints have been slowing down permits. The six-month moving average of the monthly seasonally adjusted annual rate of housing starts was 271,068 in September, down from 284,757 in August.

The Canadian Real Estate Association reported September home sales edged up on a month-over-month basis for the first time since March. Home sales for the month reached

48,949, their second-highest ever for September and a 0.9% increase from 48,498 in August. However, sales were down 17.5% from record-breaking sales in September 2020. Eighteen of 31 markets reported increasing sales.

Canadians are once again buying homes in cities, according to a recent survey fielded by Sotheby's International Realty Canada. The report noted that Calgary's luxury segment, which includes homes starting at \$1 million, saw sales rise 50% in July and August compared to the same period in 2020. Activity in the city's luxury condo market is also picking up, doubling from the same period in 2020. The report noted that luxury market sales in rural areas are also rising, and are up two to three times from 2020, driven by single-family detached home sales.

Retail Sales Rise 2.1%

Retail sales were up 2.1% to \$57.2 billion in August, led by higher sales at food and beverage stores (+4.8%), gasoline stations (+3.8%), and clothing and clothing accessories stores (+3.9%). Sales increased in 9 of 11 subsectors, representing 94.6% of retail trade. Core retail sales, which exclude gasoline stations and motor vehicle and parts dealers, were up 2.7%, on par with the increase in August. In volume terms, retail sales increased 1.4% in August. Higher sales at building material and garden equipment and supplies dealers (+2.8%) also contributed to the growth in core retail. The increase in this subsector was the first since record-breaking growth in March 2021 and came after four consecutive months of declines.

Retail Ecommerce Sales Rise

On a seasonally adjusted basis, retail ecommerce sales rose 3.2% in August. On an unadjusted basis, retail ecommerce sales were down 2.9% year over year to \$3.0 billion in August, accounting for 4.9% of total retail trade. The share of ecommerce sales out of total retail sales increased 0.3% in August compared with July.

Retail Notes

Two of Lowe's corporate Rona stores won 2021 Outstanding Retailer Awards from the home improvement retail industry association Hardlines. The winning stores were the RONA Kellowna, which won Best Large Surface Retailer and RONA Cowansville, Best Contractor Specialist.

Canadian Tire joined forces with 70 other businesses and organizations to launch an ambitious plan to reduce plastic waste and encourage recycling throughout the supply chain. Currently more than 80% of packaging produced in Canada ends up in a landfill or polluting the environment. The Canada Plastics Pact aims to create measurable change by 2025 and a "circular economy" for plastic packaging by 2035.

MARKET TRENDS

Fixing the Broken Supply Chain

In early October there were 62 cargo ships waiting to dock at the ports of Los Angeles and Long Beach, which account for 40% of all the containers that come in to the US. The time it takes to get a shipment from China to the US has more than doubled from 35 days to around 78 days. Ships sit in port waiting to unload for an average of eight days. Cargo space on vessels is going to the highest bidder, with companies relying on supplier relationships, charter deals and non-traditional contracts with rail and truck shippers.

In mid-October President Biden announced a broad-ranging agreement that would allow the Ports of Los Angeles and Long Beach to work 24/7. That means the ports will be operating an additional sixty hours every week trying to unclog the supply chain and get goods moving. Reaching consensus required weeks of negotiations and cooperation from the Port Authority, the longshoreman's union and several of the country's largest retail and shipping companies. The hope is that nighttime operations will help break the logjam. Major retailers, including Walmart, Home Depot, Target, FedEx, UPS and Samsung committed to unloading during off-peak hours.

Walmart, Home Depot, Costco and Target all chartered exclusive cargo ships to bypass supply chain problems and help assure they would get goods in time to keep shelves stocked for the all-important holiday selling season. Mid-size retailers and brands don't have that option; the cost of leasing a ship runs between \$1 million and \$2 million per month plus operating costs. Big retailers use between 500 and 1,500 containers every month; each container costs hundreds of dollars to rent.

Shippers have also been trying to divert to ports that are not as busy, such as Tacoma, Seattle and the East Coast, but

there are bottlenecks everywhere. Normally companies pay a fraction of the cost and share ships with other clients. A chronic shortage of both long-haul truck drivers and containers is also contributing to the problem. There are now 22,000 fewer truck drivers now than there were in 2019, and many more needed to actually meet demand.

Record Job Openings in Warehousing and Transportation

The warehouse and transportation industry had a record 490,000 job openings in July, a gap that experts predict will only grow wider. Warehouse jobs were once thought to be the future of retail, offering opportunities for displaced workers and reshaping the workplace. Instead, today there is a dearth of workers willing to take on the physically and mentally demanding work, according to a recent article in the *Washington Post*. Industry watchers say the number of seasonal postings advertising urgent and immediate vacancies has gone up tenfold over the past year, with many more employers offering incentives such as signing bonuses, higher wages, bigger discounts, flexible schedules and even free college tuition and textbooks or other types of training. Many of the workers who have left the industry cited long hours and grueling and demanding work. Insiders from some of the biggest employers in the country told the *Post* that many people find the jobs so challenging they quit after their first day. Long-time employees say after years in the industry they just can't keep pace anymore.

Lumber Prices Cool Down

After soaring for months, lumber prices fell sharply in the third quarter and are expected to decline about 29% next year, according to *Engineering News Record*. Industry experts say the changes are due to supply and demand corrections. CV19 restrictions kept supplies very depressed and prices very elevated. Capacity has come back due to fewer restrictions and a pull-back in demand as the housing market in the US softened somewhat and buyers put off home renovation projects and buying a home.

Payment and Entry by Palm Technology

Amazon says their Amazon One palm technology allows registered users to have their palms scanned for entry and for making purchases at some venues. Amazon One reads

the tiny, distinct features on and below the surface of the user's hand. When customers enroll in the program, imaging and computer vision algorithms capture and encrypt someone's palm image and create a palm signature that the system analyzes whenever the enrollee places their hand over a reader. In essence, Amazon is not capturing a palm print, but actually doing palm vein scans, which gives them many more data points and a much higher level of security. Palm scans read an average of 5 million reference points and remain relatively stable throughout a person's life. Amazon uses palm-based payment at some of their retail locations and has made the technology available at no cost to other companies. Digital ticketing company AXS installed ticketing pedestals called Amazon One at Red Rocks Amphitheater in Denver and plans to add more venues, including the T-Mobile Center in Kansas City and the Target Center in Minneapolis. In addition, the new Climate Pledge Arena in Seattle will be implementing Amazon's Just Walk Out technology with Amazon One at four of their food and beverage locations. The technology will allow fans to grab what they want and leave without taking the time to check out.

Mobile Tech Changes Shopping

More than 70% of respondents want to use technology to get through their store visits more quickly and find more of what they are looking for, according to the ChaseDesign Tech at Retail survey of 1,000 consumers ages 16 to 54. Consumers are using mobile apps and other tools for things like contactless checkout, scanning QR codes for product information, looking up discounts/promos and downloading digital coupons. More than 60% of shoppers reported that self-checkout makes them more likely to shop at a retailer. The top ten apps that customers found most useful included Walmart, Target, Kroger, Costco, Whole Foods, Sam's Club, Walgreens, CVS, Albertsons and Publix.

Remodeling Industry More Confident

Remodeling Confidence rose five points to 87 in the third quarter, as compared to the third quarter of 2020, according to the NAHB/Royal Building Products Remodeling Market Index (RMI). NAHB said that demand for remodeling remains strong but remodelers are dealing with material and labor shortages that curtail their ability to take on projects. Remodelers report that most customers are willing to put up with delays and extra costs in order to be able to move ahead with their projects.

The Current Conditions Index rose to 90, a four-point increase from the third quarter of 2020. All components also posted increases compared to the third quarter of last year. Large remodeling projects (\$50,000 or more) rose six points to 86, moderately-sized remodeling projects (at least \$20,000 but less than \$50,000) increased five points to 91 and small remodeling projects (under \$20,000) inched up one point to 91.

The Future Indicator Index rose seven points to 84. Both components increased as well. The current rate at which leads and inquiries are coming in rose five points to 83 and the backlog of remodeling jobs climbed eight points to 85.

Well over 90% of remodelers in the third quarter RMI survey reported a shortage of carpenters, according to NAHB Chief Economist Robert Dietz. And 57% of remodelers reported having slightly raised prices for projects over the last six months, with another 28% indicating a significant increase in price, due in part to higher material costs and ongoing strong demand. Half of these remodelers reported some projects did not move forward due to higher prices. The RMI was redesigned in 2020 to make it more accurate and easier to respond to. Therefore, current data cannot really be compared to previous survey results. The RMI asks remodelers to compare market conditions to the previous three months on a “better,” about the same and worse scale. More than three-quarters of respondents said that the current market was about the same as it was three months earlier.