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CST/berger | freud | Sia

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US ECONOMY

Exchange Rates January 31, 2022

Euro	1 Euro = \$1.121	\$1.00 = 0.892 Euros
Canadian Dollar	1 CAD = \$0.790	\$1.00 = 1.270 CAD
Japanese Yen	1 Yen = \$0.009	\$1.00 = 115.266 Yen
Chinese Yuan	1 Yuan = \$0.157	\$1.00 = 6.361 Yuan
Mexican Peso	1 Peso = \$0.048	\$1.00 = 20.637 Pesos

Market Watch January 31, 2022

DOW	35,132	-3.3%
NASDAQ	14,240	-8.9%
S&P 500	4,516	-5.3%

The year got off to a turbulent and rocky start for all three indexed, with both the tech-heavy Nasdaq and the S&P 500, the index most closely followed by analysts, notching their worst months since March 2020 at the beginning of the pandemic. Markets are pricing in at least five quarter-point increases in interest rates from the Fed. Heavy volume, big swings and uncertainty about what lies ahead all contributed to exceptional volatility.

Consumer Spending Falls 0.6%

Consumer spending fell 0.6% in December after rising 0.6% in November. It was the first decline in consumer spending in ten months, but was slightly less than expected. However, core consumer spending fell 1.0%. Personal incomes, which fuel consumer spending, jumped 7.3% in 2021 owing to rising wages and massive government stimulus spending for individuals and families. Consumer spending is expected to grow a more modest but still solid 3.5% this year.

Consumer Prices Rise 0.5%

The Consumer Price Index (CPI) rose 0.5% in December after rising 0.8% in November and was up 7.0% year over year, the largest year-over-year increase in thirty years. Core inflation, which excludes the volatile food and energy categories, rose 0.6% in December after rising 0.5% in November and was

up 7.0% year over year, the biggest increase since 1982. Prices increased across most categories, with big jumps in groceries, gasoline, energy costs, new and used vehicles, furniture, apparel, appliances and rent. Adobe reported that online prices rose 3.1% year over year and were up 0.8% from November. A narrower measure of inflation that omits volatile food and energy costs, known as the core PCE, rose by 0.5% in December, matching forecasts, after increasing 0.6% in November. The increase in the core rate in 2021 totaled 4.9%, compared to a mild 1.5% gain in the prior year. That's the highest annual level since 1982. The core PCE price index is the Fed's preferred measure for its 2% inflation target, which is now a flexible average.

Consumer Confidence Falls to 113.8

Consumer Confidence Index



- ▶ The New York-based Conference Board's Consumer Confidence Index fell to 113.8 in January after rising to 115.2 in December. It was the first decline in confidence in three months."
- ▶ The Present Situation Index, which is based on consumers' assessment of current business conditions, rose to 148.2 after falling to 144.8 in December.
- ▶ Expectations for the next six months fell to 90.8 in January after rising to a downwardly revised 95.4 in December.
- ▶ 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 Rises to 4.0%



- ▶ The unemployment rate inched up to 4.0% in January after falling to 3.9% in December. Unemployment was just 3.5% at the start of the pandemic in March 2020.
- ▶ The economy added 467,000 new jobs,* three times more jobs than expected and the number of new jobs added in December was revised up from 199,000 jobs to 510,000 new jobs.
- ▶ The economy added 6.4 million jobs in 2021, the most since record-keeping began in 1939.
- ▶ The jobs report points to a strong economy and supports the Federal Reserve's plans to gradually raise interest rates.
- ▶ Construction jobs rose modestly in December. Transportation and warehousing added 19,000 new jobs in December and 218,000 since February 2020.
- ▶ Average hourly wages rose 0.7% in January to \$31.63 and were up 5.7% year over year.

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

Job Openings Drop

The number of job openings decreased to 10.6 million in November, according to the most recent Jobs Openings and Labor Turnover Survey (JOLTS) from the U.S. Bureau of Labor Statistics. Hires were little changed at 6.7 million and total separations increased to 6.3 million. Within separations, the quits rate increased to 3.0%, matching a series high last seen in September. The layoffs and discharges rate was unchanged at

0.9%. Jobs openings decreased in November to 10.6 million from 11.1 million in October. The number of job openings were up 56% year-over-year. Quits were up 37% year-over-year. 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 Rises to 65.2

The Chicago Purchasing Managers Index (Chicago PMI) rose to 65.2 in January after rising to an upwardly revised 64.3 in December. It was the 19th consecutive month the index remained in positive territory. Results were well ahead of expectations. A PMI number above 50 signifies expanded activity over the previous month. While remaining in positive territory, the index has been on a downward trend since last May, when scarcity of supply amid booming demand began having an impact. 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 0.2%

The Producer Price Index rose 0.2% in December after jumping an upwardly revised 1.0% in November and was up 9.7% year over year, the highest increase since the federal government started tracking this data in 2010. The moderation in price increases was due to a 3.3% drop in energy prices. Core inflation, which excludes the volatile food and energy categories, rose 0.5% in December after rising 0.8% in November and was up 8.3% from December 2020. The slowdown in December reflected declining prices for gasoline and food; the price of services went up.

Q4 GDP Grows 6.9%

The economy grew 6.9% in the fourth quarter after growing 2.3% in the third quarter, according to the first reading from the Commerce Department. It was the fastest pace of growth since 1984 and much better than expected but is not likely to be repeated in the immediate future. Inventory stockpiling contributed 4.9% to headline growth as retailers stocked up for the holiday season and businesses pulled out all the stops to source needed inventory. That means inventories probably won't give the first quarter a boost as originally anticipated. Despite the Omicron variant aggravating already severe supply chain issues at the end of last year, business fixed investment rose at a 2%

annualized pace in the fourth quarter. There was strong spending on intellectual properties including software and research and development. Spending on equipment was also strong. All told, the economy grew at essentially double its expected growth rate.

Fed Holds Interest Rates

The Fed made no major policy moves at their meeting in January, leaving interest rates at 0.00% to 0.25%. However, the Fed signaled that with inflation running well above 2% and the labor market and economy strong it would soon be time to start raising rates. Analysts expect a 0.25% rate increase at their next meeting in March and a total of seven 0.25% rate increases by the end of 2023. The Fed will also continue to "taper" purchases of Treasury securities and mortgage-backed securities (MBS) by \$20 billion and \$10 billion respectively per month, which means that asset purchases will end in March.

HOUSING & CONSTRUCTION

Builder Confidence Falls to 83

Builder confidence fell back one point to 83 in January after rising to 84 in December, 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 have kept confidence in a narrow range for months despite persistent supply chain issues and chronic shortages of materials, land and labor. NAHB analysis indicates the aggregate cost of residential construction materials has increased almost 19% since December 2020. The HMI index gauging current sales conditions held steady at 90, the gauge measuring sales expectations in the next six months fell two points to 83, and the component charting traffic of prospective buyers fell two points to 69. 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 9.1%

Overall permits increased 9.1% to a 1.87 million unit annualized rate in December after rising to 1.71 million units in November. **Single-family permits increased 2.0%** to a 1.13 million unit rate after rising to 1.10 million units in November. Multi-

family permits increased 21.9% to a 745,000 pace. Single-family homes permitted but not authorized are now down to 144,000 compared to 154,000 in October, but are still up 38.5% compared to a year ago. Regional permits were up year to date.

Housing Starts Rise 1.4%

Housing starts rose 1.4% in December to a seasonally adjusted annual rate of 1.70 million units after rising to 1.68 million units in November. **Single-family starts fell 2.3%** to 1.17 million units after jumping to a downwardly revised number in November.

Total housing starts rose 15.6% in 2021 to 1.60 million. Single-family starts for the year rose 13.4% to 1.12 million. Multifamily starts rose 22.1% in 2021 were up 22.1%. Combined single-family and multifamily regional starts were up year to date compared to 2020.

New Home Sales Rise 11.9%

New home sales rose 11.9% in December to a seasonally adjusted annual rate of 811,00 in December. However, sales for both October and November were revised downward. Sales were down 7.3% from December 2020. Inventory remained steady at a 6-months' supply, with 403,000 new single-family homes for sale, up 34.8% from December 2020. The median sales price fell to \$377,700 from \$416,100 in November and was up just 3.4% from December 2020. Analysts note that the jump in new home sales may reflect people trying to get homes under contract before mortgage rates increase further. In addition, the slight easing of supply chain issues in the fall allowed more homes to be completed; supply chain issues worsened again later in the year when the devastating floods in Canada caused lumber prices to skyrocket again. Sales of new homes fell 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 Fall 4.6%

Existing home sales fell 4.6% in December to a seasonally adjusted annual rate of 6.18 million units after rising to 6.46 million units in November. Sales were down 7.1% from December 2020, according to the National Association of Realtors. The median price rose to \$358,000 in December from \$353,900 in

November and was up 15.8% year-over-year. Year-over-year prices have risen for 118 consecutive months. Total inventories fell 18% in December to an all-time low of just a 1.8-month supply at the present sales pace, down from 2.1 months in November and from 1.9 months in December 2020. Properties were on the market for an average of just 19 days in December. Existing home sales fell in all regions.

Remodeling Index Rises to 83

The NAHB/Royal Building Products Remodeling Market Index (RMI) rose four points to 83 in the fourth quarter of 2021. Higher home equity has given homeowners the confidence to invest in their homes and fueled a boom in remodeling. However, many remodelers are booked for months and supply chain issues continue to create problems and make it tough for remodelers to work off their backlogs. The Current Conditions Index, which is an average of scores for small, medium and large-sized remodeling projects, rose to 89 compared to Q4 2020. All components of the Current Conditions Index also posted increases compared to the fourth quarter of last year: large remodeling projects (\$50,000 or more) climbed seven points to 85, moderately-sized remodeling projects (at least \$20,000 but less than \$50,000) rose two points to 90 and small remodeling projects (under \$20,000) increased two points to 91. The Future Indicators Index averaged 77, up five points from the fourth quarter of 2020. Both components increased as well: the current rate at which leads and inquiries are coming in rose three points to 74 and the backlog of remodeling jobs climbed seven points to 80. Data for the RMI was collected in December so did not reflect the impact of rising mortgage rates.

Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence	73 (-1)	88 (-1)	75 (+1)	88 (+1)
Building Permits YTD	22.4%	16.3%	14.4%	19.0%
Housing Starts Y/Y	22.2%	15.3%	10.9%	16.9%
New Home Sales*	-5.8%	-5.9%	-7.6%	-10.5%
Existing Home Sales*	-1.3%	-6.3%	-1.3%	-6.8%

* Year over Year **unchanged

Mortgage Rates Rise to 3.55%



- ▶ 30-year fixed-rate mortgages (FRM) rose to 3.55% at the end of January from 3.05% at the end of December. Mortgage rates were 2.7% at the end of January 2021.
- ▶ Mortgage rates ticked up all month ahead of rising bond yields and the Fed’s expected increase in interest rates.
- ▶ Rising rates have not yet impacted demand. Often pending rate increases push up demand as fence-sitters decide to take action before rates climb higher.
- ▶ Mortgage rates are still very affordable. The biggest problems remain lean inventories and supply chain problems.

POWER TOOL INDUSTRY

Robert Bosch Tool Corporation

Technology makes the world a better place, according to a Bosch Tech Compass survey of the general public in the US, China, Germany, India and the United Kingdom. US respondents said that safety, better health and the ability to make life more comfortable are the top benefits of technology. Overall more than three-quarters of the people surveyed in the US believe technology progress should be more focused on the problems of society compared to individual needs, ranking the US last in this area; other countries gave this a rating higher than 80%. The vast majority of respondents believed that technology will play a role in combatting climate change.

Bosch reported from the Consumer Electronics Show (CES) that the company wants their entire product line to come with artificial intelligence by 2025. Sales of networkable power tools, home appliances and heaters alone have increased 50% within a year, rising from four million units in 2020 to more than six million units in 2021. Bosch had originally planned a live press conference at CES but switched to a virtual conference because of the rapid spread and risk posed by Omicron.

Stanley Black & Decker

SB&D FY21 revenue grew 20% to \$15.6 billion, below expectations. Organic revenue grew a record 17%. Fourth quarter revenue grew 2% to \$4.1 billion as price (+5%) and acquisitions (+6%) were partially offset by lower volume (-8%) and currency (-1%). Volume was impacted by a series of logistical and other supply chain challenges.

Q4 Tools & Storage net sales increased 3% as the acquisitions of MTD and Excel (+7%) and price (+5%) were partially offset by lower volume (-8%) and currency (-1%).

CFO Don Allen said that they were not satisfied with the fourth quarter volume and cash flow, which was driven by the constrained and congested supply chain. They have implemented price increases and are taking steps to mitigate inflationary impacts and improve efficiencies. They are also investing in expanded capacity to support continued growth.

SB&D announced a round of layoffs, stating that a percentage of employees from the company were being let go due to impacts from inflation and supply chain issues. SB&D shifted one-third of their office employees into a hybrid work model in August 2021. Those changes affected about 10,000 positions worldwide. About one-third of employees work full-time at one of 76 facilities worldwide and another one-third are completely virtual.

DeWalt recalled about 8,500 corded chain saws citing injury risks. The recall involves DeWalt DWCS600, Type 1 18-inch 15-amp corded chain saws manufactured in Mexico and sold at hardware and tool supply stores nationwide from June 2021 through November 2021 for between \$130 and \$150. The chain saw can remain running even when switched off or turn on when plugged in. SB&D has not received any reports of injuries but urged consumers to stop using the recalled saws and contact DeWalt for a free replacement saw.

DeWalt is partnering with Shoes for Crews, the global leader in slip-resistant footwear, to represent the DeWalt brand in Canada for industrial footwear and apparel products.

DeWalt is the most trusted power tool and hand tool brand in the recently released America's Most Trusted Study. Rankings for the study were based on interviews with more than 10,000 customers for hand tools and 5,000 customers for power tools. Bosch, Milwaukee and Ryobi also ranked high among the most trusted brands.

TTI/Techtronic Industries

A study from Citi stated that investors' fears about a slow-down in sales in 2022 were unfounded. Citi was confident that TTI would sustain momentum this year due to solid retail channel restocking demand from clients and lower-than-expected inventories across some product categories. Another boost in demand is expected to come from the \$1.2 trillion infrastructure bill.

RETAIL

Retail Sales Fall 1.9%

Retail sales fell 1.9% in December after rising just 0.3% in November. Results well below expectations were attributed to surging inflation and cases of the Omicron variant, both of which dampened end-of-the-year holiday shopping. Retail sales are adjusted for seasonal variations but not for inflation, so increases for 2021 were damped by historically high inflation. Sales at building material and garden supply stores rose 0.9%, one of the few categories that posted an increase. Online sales dropped 8.7% year over year as consumers returned to stores. Core retail sales plunged 3.1% and core sales for November were revised downward. Core retail sales correspond most closely with the consumer spending component of GDP. The National Retail Federation forecast that 2021 retail sales overall rose between 6.5% and 8.2%, which would beat the previous record growth rate of 6.3% in 2004.

Holiday Sales Beat Forecast

Holiday retail sales between November 1 and December 31 grew 14.1% over 2020 to \$866.7 billion, according to the National Retail Federation (NRF). Sales easily beat NRF's forecast of an 8.5% to 10.5% increase and set new records. NRF num-

bers include online sales, which grew 11.3% to \$218.9 billion. NRF sales exclude automobile dealers, gasoline stations and restaurants. Holiday sales at building materials and garden supply stores rose 13.5%. Sales were strong despite the fact that consumers began shopping in earnest in October, but October sales were not included in the holiday sales recap. Retail sales for December were down 2.7% seasonally adjusted from November but were up 13.4% unadjusted year over year. NRF numbers come from US Census Bureau data. According to retail consultancy Customer Growth Partners, which has tracked holiday sales since 2001, more than half of the overall sales growth was driven by 7% consumer price inflation, the highest in 40 years. Organic growth accounted for 6.7% of the overall increase. However, according to CGP, it was still the strongest organic growth in the past twenty years.

The Home Depot

THD promoted Edward “Ted” Decker to President and CEO, effective March 1 from his current position of President and COO. Decker has been with THD since 2000 in a variety of leadership roles. He succeeds Craig Menear, who was tapped for the CEO position in 2014 when the very popular Frank Blake retired. Menear will continue as Chairman of the Board. Menear said that Decker, who has grown with the company and now leads day-to-day interconnected operations, offers the perfect blend of the art and science of retail that is exactly what is needed in the next phase of growth for The Home Depot.

Environmental non-profit CDP gave The Home Depot a score of A- for their actions to cut carbon emissions and reduce climate risk. It was the fourth consecutive year that the company has received an A/A- rating for its climate change efforts. The North America regional average is a C. Every year, thousands of companies disclose data about their environmental impacts to CDP for independent assessment. Scoring enables companies to move forward towards environmental stewardship through benchmarking and comparison with peers and to continuously improve their climate governance.

Lowe’s

Lowe’s is known for allowing dogs in their stores, and now has teamed up with Petco Health and Wellness on a store-in-store model. Lowe’s + Petco will carry an assortment of high quality nutrition and health and wellness products as well as supplies such as beds, accessories and treats. Mobile services

such as Vetco vaccination clinics, microchipping, grooming and prescription pest prevention will be available at select times and locations. Pilot stores will be staffed with Petco employees during peak hours. An internal research study showed that families have added more than 11 million pets to their households since the pandemic began. Lowe’s already owns the Stainmaster PetProduct carpet brand and will develop additional product offerings.

Walmart

Walmart announced several executive changes. Casey Carl, executive VP and chief omnichannel strategy ecommerce officer, is leaving Walmart at the end of February. He will be replaced by Tom Ward, currently a senior VP focused on last mile delivery. Ward has championed a number of innovative delivery initiatives, including autonomous vehicles and drones. Carl is leaving Walmart after less than two years on the job, having joined the company in September 2020 and taking over for veteran Marc Lore in January 2021. Prior to joining Walmart, Carl spent 20 years at Target, leaving the chain in 2017 after serving nearly three years as chief strategy and innovation officer. Walmart did not comment on the reasons for his departure or his future plans. Carl’s departure is the latest in a series of recent leadership changes at Walmart. The retailer’s chief merchandising officer, Scott McCall, is retiring and will be replaced by the current head of the US grocery business. In November, Walmart announced that CFO Brett Biggs would step down in January 2023. He will stay with company through 2022 while his successor is named and settled in the role.

Walmart is testing phase two of their massive store redesign project that began about the same time as the pandemic. Phase one was designed to make stores easier and more efficient to shop in. Phase two is designed to give people reasons to come in, stay and browse. Taking a page from Target’s book, Walmart will include large thematic displays that show off some of Walmart’s recent partnerships, including GapHome and Queer Eye, and encourage people to look at a range of products. There will also be areas dedicated to displaying items such as baby strollers, vacuum cleaners and kitchen products in ways that encourage people to see, touch and feel products. Interactive screens and QR codes will be everywhere to make it easy for shoppers to learn more, see products they are interested in in other styles and colors and even order online if they prefer. Walmart may begin employing visual merchandisers at

stores, something they've never done before. The test store is in Springdale, Arkansas, close to corporate headquarters.

Ace Hardware

Ace has earned high scores in several recent surveys and studies. Ace ranked number one in the home improvement/hardware category and number 16 overall, according to a survey conducted by New York-based Incisiv that analyzed brick-and-mortar, mobile and online consumer service experiences at 500 US retailers. In addition, Reputation, which analyzed 3.7 million Google reviews to generate "Reputation Scores" for retailers, ranked Ace highest for both consumer sentiment and shopper engagement. And Quebec-based Orckestra's fifth annual study of omnichannel capabilities ranked Ace as third overall of 100 retailers considered, and highest in the home improvement category. Bill Kiss, Head of Digital at Ace, said that their website is the front door to their brand, since most consumers start their shopping online.

Ace Hardware was the 13th fastest-growing US-based retailer between 2019 and 2020, according to a report by Total Retail. Revenue at Ace grew 27.9% to \$7.762 billion over the period, or 27.9%. That's highest in the hardware and home improvement category and fourth overall among combination online and brick-and-mortar businesses, according to Total Retail's Top 50 ranking. Ace noted they have focused on having the brands customers want in stock and giving consumers many choices, including in-store, online, curbside and delivery from their local Ace store. Total Retail reported that of the 150 retail companies it tracked over the period, only 73 posted positive year-over-year sales.

Entrepreneur magazine ranked Ace Hardware among the top one percent of franchise business opportunities in the world, according to their 2022 "Franchise 500" survey. Ace ranked 12th out of 1,177 franchise businesses analyzed and of 500 ranked. *Entrepreneur's* Franchise 500 is the oldest and most comprehensive franchise company ranking in the world, assessing unit growth, financial strength, stability, and brand power. Ace ranked first in the "Miscellaneous Retail Businesses" category. Overall, Ace improved their ranking from 23rd overall in 2021.

CANADA SNAPSHOT

Unemployment Rises to 6.5%



- ▶ The unemployment rate rose to 6.5% in January after falling to 5.9% in December. It was the first increase in unemployment since January 2021 when unemployment peaked at 9.4%.
- ▶ Employment fell by 200,000 jobs in January after seven months of job gains.
- ▶ Job losses were concentrated in the private sector and driven by Ontario and Quebec and were largest in foodservice and accommodations. Construction added 27,000 new jobs, the first increase since August 2021.
- ▶ Average hourly wages grew 2.4% year over year.
- ▶ Construction employment rose by 22,000 in January after increasing in December. Most gains were in Ontario.
- ▶ More people worked from home in January. About 25% of Canadians now work from home regularly at least part of the time.

Consumer Prices Rise 4.8%

The Consumer Price Index (CPI) rose 4.8% year over year in December, up slightly from the increase in November and October. It was the largest year-over-year increase since 1991, according to Statistics Canada. It was the ninth consecutive month that inflation has exceeded the Bank of Canada's target range of 1% to 3%. Supply chain disruptions, extreme weather

firm, to offer the Amazon Web Services (AWS) re/Start program virtually to Indigenous students across Canada. Twenty-two students, some from remote communities, have started a 12-week Cloud computing boot camp which will be followed by a six-month BMO internship to learn and apply those skills on the job, and opportunities for full-time employment. AWS re/Start is a skills development program that prepares individuals for a career in technology with the mission of building a pipeline of talent with core Cloud and Cloud-adjacent skills that are transferable to multiple technology roles. The people participating in this program with PLATO and BMO were selected from a pool of First Nations, Métis, and Inuit applicants from across Canada who demonstrated a strong interest in technology.

MARKET TRENDS

Where Have all the Workers Gone?

At the beginning of the pandemic in April 2020 the economy shed 21 million jobs. In January 2021 the unemployment rate was 6.7% and 10 million people were out of work. Economists believed it would take years for the labor market to heal and the economy to right itself.

Demand for workers roared back much more quickly than anticipated. But instead of having their pick of hires, many former employees decided to retire early, start their own business or discovered they didn't miss their high-stress and often low paying jobs. The switch to hybrid and virtual offices and the ability to work remotely reduced expenses for many people and opened eyes to the joys of not being tied to an office job. Millions of women forced to stay home and supervise virtual learning and handle childcare turned to careers that could be launched and managed from their home base. Analysts have dubbed this phenomenon The Great Resignation.

Workers were in the driver's seat most of 2021, feeling empowered to quit because employers were anxious to hire. The resulting labor shortages are impacting a wide range of industries that have relatively low-paid workers, including restaurants, factories, hospitals and retail.

Rounds of government stimulus checks helped the economy recover much more quickly than anticipated and gave people a cash cushion. Meanwhile, the Fed held interest rates

near zero and pumped billions of dollars into the economy.

Since summer 2020, the share of the population looking for a job or employed has barely budged. Today there are still 3.5 million fewer people employed than before the pandemic began. However, only about half of those people are actually looking for jobs. Retirements soared, with about 1.5 million more people retiring than anticipated. Meanwhile, workers in high-stress, low paying jobs suddenly had bargaining power and began demanding better working conditions, higher wages and better benefits.

What's Ahead for the Economy?

The Covid-induced Great Recession of 2020 was both one of the deepest economic contractions in history and one of the shortest.

Economists, who are understandably a little gun shy about making predictions, expect the rebound to continue this year but believe we will return to more normal growth rates. Supply chain pressures, labor shortages, the red-hot housing market and inflation are all expected to persist at least through the first half of 2022. Inflation is expected to eventually settle in at around 3%, still above the Fed's target level of 2%. According to the Fannie Mae Economic and Strategic Research (ESR) Group, inflation, as measured by the Consumer Price Index, will average 7.0% on an annual basis in the first quarter before slowing to a still-elevated 4.0% by the end of the year.

The Fed has indicated they expect to begin raising interest rates this year, with most economists anticipating three increases of 0.25% each, followed by three more in 2023. The first increase in interest rates is expected to occur in March. Increasing interest rates will further strain housing affordability.

GDP Growth will slow down this but remain above trend, according to Wells Fargo. Much of the above-trend rate of growth in 2021 can be traced to the massive stimulus that was poured into the economy. Direct stimulus checks to consumers, supplements to jobless benefits and expansions of the Child Tax Credit all stimulated consumer spending. Over the past two years, retail sales gained as much as they did in the nine previous years, and households accumulated more than \$2 trillion dollars in savings. Wells Fargo projects that as the pandemic recedes, foreign production picks up, ports around the world

events and labour shortages all contributed to the increase. Shelter costs jumped 5.4% in 2021 and home and mortgage insurance costs jumped 9.3%, which may have been due to the increase and severity of weather-related claims due to fires and flooding. The average of the Bank of Canada's core measures of annual inflation, which strip out extreme price swings and give a better sense of underlying trends, rose to 2.9%, the highest since 1991.

Interest Rates Steady for Now

The BoC mirrored the Fed and kept interest rates at 0.25% at its first meeting of the year in January, but signaled that it will begin to raise rates soon. The BoC stated that the economy has returned to full capacity and now the priority is getting inflation back under control. Consumer prices rose an average of 4.2% in 2021, well ahead of forecast. The bank expects to implement a series of quarter-point rate increases this year and have inflation at about 3% by the end of this year and 2.5% by mid-2023. Economists are projecting three increases this year.

Housing and Construction News

The annual pace of housing starts fell 22% in December to 236,106 units, with urban starts falling 24%, according to Canada Mortgage and Housing Corporation (CMHC). The six-month moving average of the monthly seasonally adjusted annual rate of housing starts was 260,567 in December, down from 267,606 in November. Starts for November were revised up.

Canada had the lowest supply of existing homes available for purchase on record in January, according to the Canada Real Estate Association (CREA).

December marked the slowest pace of new construction since December 2020, but single-family home and multifamily home construction increased 28% and 19% respectively last year after CV19 shutdowns depressed levels in 2020.

The December pullback could add to concerns over the housing market's ability to sustain price increases at its current pace. Home prices have skyrocketed as the existing supply of homes on the market has shrunk while demand has grown. CREA reported that the national average price of a home was \$811,700 in December after adjusting for price volatility, a 26.6% jump from the year before.

Policy-makers are already gearing up to tackle what some deem a housing crisis. In the last federal budget, Prime Minister Justin Trudeau's government outlined \$2.5 billion to speed up and support 35,000 affordable housing units.

Annual home sales reached a new high in 2021, eclipsing the previous record set in 2020 by about 20%, according to CREA. The association says about 667,000 residential properties changed hands in 2021, about 30% more than the 10-year average. However, home sales in December were little changed from November as they rose 0.2% on a seasonally-adjusted basis. On a non-seasonally-adjusted basis, CREA says sales in December totaled 35,971, down nearly 10% from December 2020.

Retail Sales

Retail sales rose 0.7% to \$58.1 billion in November after rising to \$57.6 billion in October. Sales increased in 6 of 11 sub-sectors, representing 63.8% of retail trade. Core retail sales, which exclude gasoline stations and motor vehicle and parts dealers, increased 0.5%. In volume terms, retail sales were up 0.2% in November. In November, severe flooding in British Columbia and the Atlantic provinces damaged infrastructure and led to evacuations in affected regions, resulting in major disruptions to the business operations of retailers across the country. Sales at building material and garden equipment and supplies dealers rose 3.0%. It was the fourth consecutive monthly increase in sales for this segment, following four months of declines from April to July 2021. Sales were up in seven provinces, led by higher sales in Quebec.

Retail Ecommerce Sales Fall

On a seasonally adjusted basis, retail ecommerce sales fell 3.5% in November after falling 0.9% in October. On an unadjusted basis, retail ecommerce sales were up 1.1% year over year to \$4.3 billion in November, accounting for 6.9% of total retail trade. The share of ecommerce sales out of total retail sales fell 0.4% compared with November 2020, coinciding with limited Cyber Monday sales at retailers amid supply chain constraints in November 2021.

Retail Notes

BMO Financial Group has teamed up with PLATO, Canada's only Indigenous-led and staffed IT services and training

normalize and some semblance of normal returns to supply chains the economy will grow about 4% this year and about 3% in 2023.

The housing market and economy as a whole are expected to enter a "new normal" in 2022 as unprecedented market pressures stemming from the pandemic ease. The extent to which structural shifts in the economy and housing markets over the past two years will become permanent remains very much a wild card. However, most economists believe that economic growth, home sales and home prices' growth will slow to a more sustainable pace. The latest forecast from the ESR Group projects home price appreciation will average a still-elevated 7.6% in 2022, down significantly from 2021's expected pace of 17.3%.

Lumber Prices Rising Again

Following a few months of moderating prices last spring and summer, lumber prices are soaring once again, disrupting the housing market and harming housing affordability.

According to *Random Lengths*, at the end of 2021 the price of framing lumber topped \$1,000 per thousand board feet, a 167% increase since late August. The unprecedented price volatility in the lumber market dates back to April 2020 when the pandemic took hold and sawmills curtailed production in anticipation of reduced demand. When it became clear in the ensuing months that housing had weathered the storm much better than predicted and consumer demand remained strong, lumber mills did not or were not able to ramp up production accordingly.

The slow reaction by sawmills, combined with massive uptick in demand from do-it-yourselfers and big box retailers during the pandemic resulted in lumber prices peaking at a record-shattering \$1,500 per thousand board feet in May 2021, before beginning a gradual decline through late August. This most recent lumber price upsurge is due to a number of factors, including ongoing supply chain disruptions, a doubling of tariffs on Canadian lumber imports into the US that added to price volatility and an unusually severe summer wildfire season in the western US and British Columbia.

The current cost of lumber adds more than \$18,600 to the price of the average house, according to NAHB's standard estimates of lumber used to build the average home. NAHB calculates average home price increases based on the amount

of softwood lumber that goes into the average new home, as captured in the Builder Practices Survey conducted by Home Innovation Research Labs. Included is any softwood used in structural framing (including beams, joists, headers, rafters and trusses), sheathing, flooring and underlayment, interior wall and ceiling finishing, cabinets, doors, windows, roofing, siding, soffit and fascia, and exterior features such as garages, porches, decks, railing, fences and landscape walls.

Home Design and Decor Trends

This year will see a continuation of many trends born when the pandemic led to sheltering in place and working and learning virtually and resulted in people spending much more time at home. Realtor.com recently rounded up some of the trends they believe are here to stay.

Home Offices. Whether someone's company has shifted to a hybrid model that allows people to work at home at least part of the time or people left their corporate job and started their own home-based business, home offices are here to stay. People want a dedicated space with privacy, storage and technology.

More Defined Spaces. Realtor.com says that after two years of a lot of togetherness, people no longer want a completely open floor plan, but instead are looking for bonus and pocket rooms, additional living space, finished basements and dedicated play/study space for kids.

Laundry Rooms and Pantries. During the pandemic kitchen storage and laundry rooms became even more important. Today's luxurious laundry rooms include built-in storage, slide-out drying racks, washing machines and dryers built into colorful millwork, wallpaper, high-end faucets and sinks, and ambient lighting. For pantries, expect to see organized food and cookware storage and even a "kitchen office" for managing the household.

Pet-Centric Design. Many households either adopted pets during the pandemic or discovered just how important their furry household members were to their well-being. Now they're worried about leaving them home alone and are creating everything from entry mud rooms and pet washing stations to floor level water taps, built-in food storage and luxe pet "bedrooms."

Everything Old is New Again. This trend was partially born out of the fact that furniture that used to arrive in two or three weeks

now takes several months, or isn't available at all. So many people have taken to shopping resale stores, Craig's List and Facebook Marketplace to find something unique they can use right now. That's led to a rash of vintage-inspired designs for everything from furniture to lighting and accessories.

Houseplants are back in style. Indoor greenery is leading to a desire for more light, lots of windows and plant accessories from baskets and bins to macrame hangers. People are also ditching heavy drapes and blinds in favor of letting in more light.

Outdoor Living Space. During the pandemic people took to dining, entertaining, hanging out and even watching movies outside. That's led to turning outdoor spaces into living rooms, dining rooms, playrooms and kitchens, with comfortable seating and portable heaters (or coolers) and outdoor media centers.

Returns Eat Into Online Profits

Persistent warnings about supply chain problems and product shortages fueled an early frenzy of online shopping well before Black Friday. Holiday online sales in the US eventually reached a new holiday season high of \$205 billion.

Record orders eventually led to record levels of returns. Returns are a retail fact of life; research regularly shows that consumers often plan on returning some of the goods they buy online. Returns processor Optoro says two out of three shoppers will likely return at least one gift received during the 2021 holiday season.

In all, Optoro projects that \$120B billion in goods will be returned between Thanksgiving and end of January 2022. Online retailers deal with return rates as much as five times higher than for brick-and-mortar purchases, according to Optoro, a company that manages returns for online retailers. UPS expects to handle more than 60 million holiday returns this season. In a survey, more than one in four people told the carrier they planned to make a return over the holidays. One in five said they'd already done so before Christmas.

In 2021 the cost of returns skyrocketed. Processing the return of a \$50 item cost retailers \$33, up 59% from 2020, according to Optoro. Costs are rising due to supply chain issues like higher transportation costs, as well as discounting and liquidation losses.

Optoro estimates that more than 5.8 billion pounds of returned goods end up in landfills, because it's cheaper for retailers to destroy the good than to try and restock them. Sometimes retailers will issue a credit to customers with good purchase histories but tell them to just keep the item and donate it or give it away instead of returning it.