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Retail Crime Spree

Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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US ECONOMY

Exchange Rates December 31, 2021

Euro	1 Euro = \$1.138	\$1.00 = 0.879 Euros
Canadian Dollar	1 CAD = \$0.790	\$1.00 = 1.265 CAD
Japanese Yen	1 Yen = \$0.009	\$1.00 = 115.120 Yen
Chinese Yuan	1 Yuan = \$0.157	\$1.00 = 6.355 Yuan
Mexican Peso	1 Peso = \$0.049	\$1.00 = 20.494 Pesos

Market Watch December 31, 2021

DOW	36,338	18.7%*
NASDAQ	15,645	21.4%*
S&P 500	4,766	26.9%*

All three indexes notched gains for December and record gains for the year despite economic uncertainty created by the surging Omicron variant, persistent inflation and supply chain and labor problems. Analysts' views of the year ahead run the gamut from a continuation of the boom to the biggest decline in years.

*annual gain for 2021.

Consumer Spending Rises 0.6%

Consumer spending rose 0.6% in November after climbing an upwardly revised 1.4% in October. 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%.

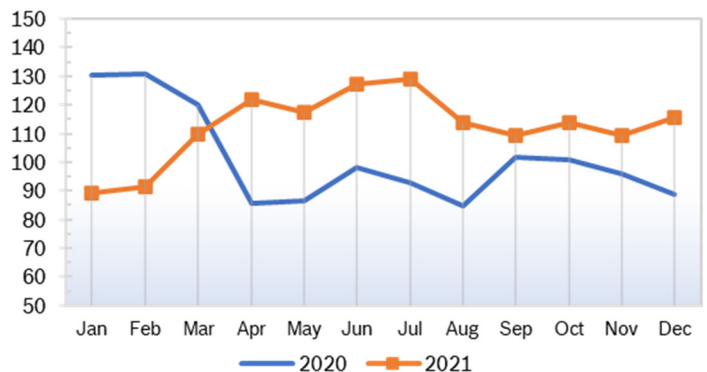
Consumer Prices Rise 0.8%

The Consumer Price Index (CPI) rose 0.8% in November after rising 0.9% in October and was up 6.8% year over year. Core inflation, which excludes the volatile food and energy categories, climbed 0.5% in November after rising 0.6% in October and was up 4.9% 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 and appliances and rent. The personal consumption expenditures (PCE) price index, excluding the volatile food and energy components, climbed 0.6% in November after rising 0.4% in October. The core PCE was up 4.7% 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. Supply chain constraints and disruptions are expected to keep inflation elevated into 2022.

Consumer Confidence Rises to 115.8

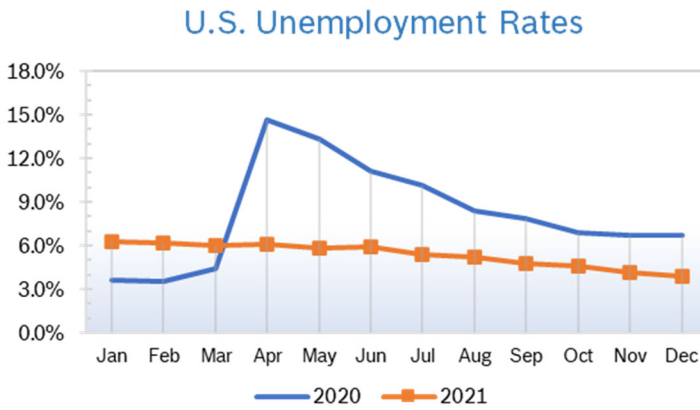
Consumer Confidence Index



- ▶ The New York-based Conference Board's Consumer Confidence Index rose to 115.8 in December and the reading for November was revised up to 111.9*
- ▶ The Present Situation Index, which is based on consumers' assessment of current business conditions, fell slightly to 144.1 after rising to an upwardly revised 144.4 in November.
- ▶ Expectations for the next six months rose to 96.9 in December after rising to an upwardly revised 90.2 in November.
- ▶ 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 3.9%



- ▶ The unemployment rate fell to 3.9% in December after falling to 4.2% in November. That's the lowest rate of unemployment since the start of the pandemic when it stood at just 3.5%.
- ▶ The economy added 199,000 new jobs, the fewest number of jobs added in any month in 2021. Job gains were well below expectations of more than 400,000.*
- ▶ The economy added 6.4 million jobs in 2021, the most since record-keeping began in 1939.
- ▶ The upswing in new CV19 cases will most likely impact employment in January as the rapidly spreading Omicron variant sends millions of employees into quarantine.
- ▶ 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 19 cents to \$30.31 in December and were up 4.7% annually.

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

Job Openings Surge

US job openings surged to 11.0 million in October after holding steady at 10.4 million at the end of September, according to the latest Job Openings and Labor Turnover Survey (JOLTS) from the US Bureau of Labor Statistics (BLS). Hiring dropped by 82,000 jobs to 6.5 million and layoffs fell by 35,000 to 1.36 million. Quits dropped by 205,000 to a still-elevated

4 million in October and the quits rate fell to 2.8% from 3.0% in September. 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 63.1

The Chicago Purchasing Managers Index (Chicago PMI) rose to 63.1 in December after falling to 61.8 in November. It was the 18th consecutive month the index remained in positive territory. After dropping sharply in November, New Orders rose more than 8 points to 66.5. Inventories rose for the third consecutive month, reaching 62.7. Prices Paid dropped 4.2 points to a 7-month low of 85.6. Prices Paid hit a 42-year high in October. The majority of firms said their biggest problems were supply shortages, labor shortages and managing logistics. 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 Jump 0.8%

The Producer Price Index rose 0.8% in November after rising 0.6% in October and was up 9.6% year over year, the highest increase since the federal government started tracking this data in 2010. Core inflation, which excludes the volatile food and energy categories, rose 0.8% in November and was up 9.5% from November 2020. The prices of both goods and services went up, with rising prices for gasoline, food, iron and steel contributing to much of the increase.

Q3 GDP Rises 2.3%

US economic growth in the third quarter was revised up to 2.3% in the third and final reading from the Commerce Department. Growth was initially reported at 2.0% and subsequently revised up to 2.1%. The relatively weak showing was due to restrictions and other issues resulting from a resurgence of CV19 cases. The revision reflected a bit more consumer spending and business inventory investment than previously estimated. That upward revision partially offset a downward revision to exports. Economists polled by Reuters had forecast third-quarter GDP growth would be unrevised at a 2.1% pace. The economy grew at a 6.7% rate in the second quarter. Last quarter's slower pace of growth reflected the strained global supply chain and the decline in pandemic relief money.

HOUSING & CONSTRUCTION

Builder Confidence Rises to 84

Builder confidence rose one point to 84 in December after rising to 83 in November, 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 continued to keep confidence high 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 buyer traffic edged up one point to 70. The present sales index rose one point to 90 and the index measuring expectations for future sales remained at 84 for the third consecutive month. All three components remain exceptionally high. 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 3.6%

Overall building permits rose 3.6% in November to an annualized pace of 1.71 million units after rising to 1.65 million units in October. Single-family permits rose 2.7% to an annualized pace of 1.10 million units after rising to 1.07 million units in October. Multifamily permits rose 5.2% to 609,000 units after rising to 581,000 units in October. 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 Rise 11.8%

Housing starts rose 11.8% in November to a seasonally adjusted annual rate of 1.68 million units after falling to 1.52 million units in October. Single-family starts rose 11.3% to 1.17 million units after falling to 1.04 million units in October. Single-family starts were up 28% year-to-date. The multifamily sector, which includes apartment buildings and condos, rose 12.9% to 506,000 units after rising to 481,000 units in October. Combined single-family and multifamily regional starts were up year to date compared to 2020. Starts undoubtedly benefitted from mild weather throughout much of the country and a relatively late Thanksgiving.

New Home Sales Jump 12.4%

New home sales jumped 12.4% in November to a seasonally adjusted annual rate of 744,000 new homes after sales for October were downwardly revised. Sales were down 14% from November 2020. Inventory remained steady at a 6.5-months' supply, with 402,000 new single-family homes for sale, up substantially from 290,000 homes in November 2020. The median sales price rose to \$416,900 from the \$408,700 median sales price posted in October and was up 18.8% year over year, due to higher development costs, including materials. 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 Rise 1.9%

Existing home sales rose 1.9% in November to a seasonally adjusted annual rate of 6.46 million units after rising to 6.34 million units in October. Sales were down 5.8% from October 2020, according to the National Association of Realtors. The median price in November rose to \$353,900, up 13.9% year-over-year. Year-over-year prices have risen for 117 consecutive months. Total inventories fell nearly 10% to just 1.1 million homes, a scant 2.1 months' supply at the current sales pace, the lowest since March and close to the record low of 1.9 months set in 2020. Properties were on the market for an average of just 18 days in November. Regional sales were mixed.

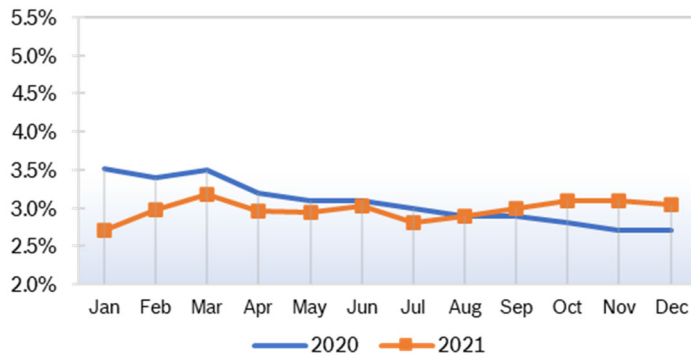
Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence	70 (+10)	89 (+5)	74 (-1)	87 (+3)
Building Permits YTD	13.6%	19.3%	16.3%	23.0%
Housing Starts Y/Y	24.4%	15.4%	9.6%	22.4%
New Home Sales*	-1.3%	-4.5%	-5.3%	-12.5%
Existing Home Sales*	UC	2.9%	0.7%	2.3%

* Year over Year **unchanged

Mortgage Rates Slip to 3.05%

30-Year Fixed-Rate Mortgage



- ▶ 30-year fixed-rate mortgages (FRM) dropped slightly to 3.05% at the end of December from 3.1% at the end of November. Mortgage rates were 2.7% at the end of December 2020.
- ▶ Despite the economy, inflation and monetary policies, mortgage rates have stayed within half a percentage point all year. Rates are expected to rise in 2022.
- ▶ Purchase intent remains strong despite persistent problems with inventory and rising home prices.

POWER TOOL INDUSTRY

Robert Bosch Tool Corporation

Bosch financials are expected to be better than first predicted for FY 2021, according to outgoing CEO Volkmar Denner. Revenue is expected to reach USD \$89.1 billion after dropping by 6.4% in 2020. Revenue dropped 6.4% in 2020. Bosch had earlier predicted a revenue increase of 6% with 3% operating margins.

Stefan Hartung, the new chief executive of Bosch, says the industry's shortage in semiconductor chips is not going away any time soon, and supply chain bottlenecks need to be solved. Hartung took over from Volkmar Denner, the outgoing chief executive, at the beginning of the year.

Stanley Black & Decker

Deutsche Bank Industrials Conference & Robert Baird Global Industrials Conference. SB&D was represented at both virtual conferences by CFO Don Allan:

They anticipate 16% to 17% organic growth in 2021, which would put them at about \$14.5 billion in sales.

The MTD and Excel acquisitions will help them create a \$4 billion outdoor platform when you add in their \$1 billion in handheld outdoor products. They expect that platform to grow significantly over the next five years.

They believe the hybrid work environment will be with us for quite some time, which means more people will be spending more time at home than they did pre-pandemic.

Ecommerce accounts for about 20% of their Tools business revenue now, about \$2.5 billion. They see more growth ahead and believe over the next two or three years that percentage could be in the mid-twenties.

At this time, they need to be aggressive in order to recover margins. They had significant inflationary headwinds in Q3 and Q4. Offsets from price started to have an impact in Q4 and will have a larger impact in the first two quarters of 2022. They did another round of price increases in November. They expect this state to be transitory.

The supply chain is starting to show some stability and commodity prices have also stabilized. The Tools & Storage business used to take 30 to 40 days to get products from Asia into the US or Europe. It now takes about 90 days due to the logistical challenges of getting things in and out of ports, getting them on to trucks and eventually where they need to go. That has added both time and significant costs.

The holiday surge actually started in July because they wanted to get holiday product in as soon as possible and by mid-November they had most of that product to stores or where it needed to go.

Now that they have worked through the worst bottlenecks they need to deal with ongoing challenges such as containers, trucks and drivers and other chronic shortages.

They saw more than 10% POS between mid-October and mid-November, an indication that demand is there, although some of it was probably early holiday shopping. Whatever is driving it, they continue to see strong demand.

Even though comps will be tough they believe they can produce organic growth for Tools & Storage in the first half of 2022. Comps will be harder in the back half. They also think they will get back to sustainable 18% to 20% margins.

The biggest challenge they are working through is making sure they have enough supply. They are building more capacity in their supply chain so if the market demand is there they could have significant growth of 10% or 15% in the first two quarters. In 2021 Tools & Storage produced somewhere between \$3 billion and \$3.3 billion in quarterly revenue.

There is DIY strength but there is also strong demand from Pros around the globe.

The Craftsman Brand rolled out about 80 products so far; they are now going to phase two, which will add about 20 more products and in 2023 they will roll out the remainder of the line and reach their goal of 300 products.

Black & Decker is working on a total line refresh and they will be rolling that out between 2022 and 2024. They will be focused on ecommerce and believe there is tremendous opportunity for global growth.

There is some optimism there may be some rollback in tariffs, which could mean as much as \$75 to \$100 million of positive impact for them.

They supported the infrastructure bill for the good of the country, but it will also be good for their Tools & Storage business. But it's not possible to put a number on the impact right now.

They've gained a lot of impressive resources in battery cell technology and formed two strategic partnerships, both very large Asian companies. They believe this will help them continue to improve the technology, co-innovate, produce better price points and improve functionality.

The Excel acquisition gives them access to an independent dealer network where Pro landscapers go for products. Their brand Hustler is a mid-price point brand and DeWalt will be a premium brand. Excel is heavily weighted to the Western US and MTD is more weighted to the Eastern US so they fit well together.

Other News:

SB&D plans to sell most of their electronic security solutions business to Swedish rival Securitas in a \$3.2 billion cash deal. SB&D said the sale is in line with their commitment to generate shareholder value and will allow them to sharpen their strategic focus on their core businesses. They hope the deal will close in the first half of 2022.

DeWalt recalled their Jobsite Pro Wireless Earphones after the Consumer Product Safety Commission received 61 reports of the earphones overheating during charging or use, including five reports of fire and four reports of minor burn injuries. They were sold at Home Depot, Lowe's and other electronics and hardware stores nationwide and online at cyberguys.com from December 2019 through July 2021 for about \$60. Consumers were advised to stop using them immediately and return with a pre-paid shipment label.

Mac Tools will establish a North American training center in Columbus, Ohio. Mac Tools will fly trainees in from across the country to receive instruction on hand tools and specialty items such as power tools, electronics and shop equipment.

SB&D won four Comparably Best Places to Work Awards for 2021, including: Best Companies for Diversity, Best Companies for Women, Best CEOs and Best Company Culture.

SB&D's Powerstack 20V Max Compact Battery was awarded a Popular Science 2021 Best of What's New Award. The award recognizes the year's top 100 breakthroughs that are paving the way for a better future. SB&D said they are the first major power tool brand to use pouch cell batteries designed for the construction industry.

RETAIL

Retail Sales Rise 0.3%

Retail sales rose just 0.3% in November after surging an upwardly revised 1.8% in October. Results were well below expectations. Sales were up 18.2% year over year. Analysts noted that inflation accounts for some of the big increase over 2020. Spending rose 4% at online retailers. Analysts noted that online shopping dominated early holiday shopping but expected in-store shopping to rise as the holidays draw closer and shipping deadlines loomed. Excluding automobiles, gasoline, building materials and food services, core retail sales rose 1.6%, doubling October'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

Holiday retail sales surged 8.5% between November 1 and December 24, according to the MasterCard SpendingPulse survey. Sales were up 10.7% compared to the pre-pandemic 2019 shopping season and more than 20% from holiday 2020. It was the biggest yearly increase in 17 years, despite disruptions from Omicron and persistent supply-chain snags. A strong job market and rising wages fueled the jump; numbers were also boosted by inflation.

Online sales were up 11% from a year ago and 61% from 2019, before the pandemic sent shoppers hunkering down at home en masse, according to the survey. This holiday season, ecommerce made up 20.9% of total retail sales, up from 20.6% in 2020 and 14.6% in 2019.

Consumers also returned to stores this holiday season, fueling an 8.1% increase at brick-and-mortar stores versus last year. Store sales rose 2.4% versus 2019.

The 8.5% surge in 2021, which includes spending by cash, check credit and debit cards, exceeded MasterCard's previous estimate of a 7.4% increase. The National Retail Federation had forecast an 8.5% to 10.5% increase over 2020, a number that excludes auto sales, gasoline and restaurants.

The Home Depot

The Home Depot Foundation, Home Builders Institute (HBI) and Habitat for Humanity International came together to spread some holiday cheer. Students from The Home Depot Foundation's 10 Path to Pro military base programs gathered for an end-of-year celebration. Each Path to Pro military base program was given a \$10,000 grant to help the Foundation pull off an Operation Surprise campaign moment. From there, each of the 10 military bases surprised a local Habitat for Humanity veteran family with a \$10,000 Home Depot gift card. The HBI trades training programs work closely with local Habitat for Humanity affiliates on projects that allow participants to learn important skills such as building ramps and doing home repairs while giving back to their community. Path to Pro was founded in 2018 to address the skilled labor gap. The goal of the program is to educate more people in skilled trades, while connecting skilled tradespeople with jobs and careers and generating interest in trade professions through educational campaigns.

Lowe's

Lowe's now expects full-year 2022 revenue and profits to be lower than originally forecast, due to waning demand for home improvement products. Lowe's said it expects same-store sales to fall as much as 3% in 2022, as the easing of coronavirus restrictions encourages Americans to leave behind some pandemic shopping habits such as spending on paint, tools and gardening equipment for DIY projects. Lowe's Chief Financial Officer David Denton expects demand to decline in mid-single digits in 2022. Rising distribution costs due to global supply chain hurdles and higher wage expenses are also expected to hurt Lowe's profits. Lowe's now expects 2022 total sales to be between \$94 billion and \$97 billion, below analysts' estimates of \$97.6 billion.

CEO Marvin Ellison joined CEOs from Duke Energy and Bank of America to talk about the role adaptability played during the pandemic as part of the Charlotte Regional Business Alliance's annual economic outlook. Ellison said that executives need to engage with employees, even multiple layers down, in order to know what is really happening with the workforce. He also noted that people who are working remotely need to feel as if they have just as many opportunities as those in the office. The CEO of Duke Energy said that the mindset has changed from waiting for the pandemic to be over to learning to live with it and adapt and continue to grow.

Lowe's is celebrating its centennial by implementing 100 community projects across 36 states that range from housing to playgrounds and cultural preservations. Ellison said that kind of work is good for communities and really resonates with employees.

Lowe's has been able to meet all of their staffing goals despite the labor shortages and has invested almost \$2 billion in wage and equity for frontline associates over the past two and half years, in addition to all the initiatives enacted during the pandemic.

Walmart

Walmart is expanding their Market Fulfillment Centers, which are small, automated warehouses in a Walmart store or a building addition that are filled with thousands of frequently purchased items from groceries to games. The fulfillment centers use robotic technology and artificial intelligence to handle online orders. Some are even able to provide automated pickup for customers. Automated bots pick the items needed and then store the orders until the customer picks it up.

Ace Hardware

Ace did a Holiday Roundup for Kids campaign in December that benefitted Children's Miracle Network Hospitals (CMNH). Shoppers had the opportunity to round their purchases up to the nearest dollar and support the local CMNH in their area.

Ace Hardware won a Golden Halo Award from Engage the Good. The Golden Halo is the group's highest honor for companies and causes that engage in activities designed to build both the bottom line and a better world. Ace won the award for their technologically innovative and humanly engaging strategies to increase point of sale fundraising for Children's Miracle Network Hospitals.

Ace added an influencer marketing strategy to their media mix as part of a larger move into what they call "PR activations" to appeal to DIYers and first-time homebuyers. Ace partnered with OKRP. Ace is trying to reach younger customers, particularly millennials who are aging into home ownership, and is incorporating new PR tactics to reach them, including TikTok and music videos. The music video for the holidays was titled Holi-DIY.

Amazon

Amazon reinstated a mask mandate for all US warehouse workers in December after coronavirus cases surged. Amazon had previously required masks only for unvaccinated workers.

Amazon's Amazon Web Services (AWS) had a major network outage the first week of December that caused problems for many websites and other online services. It took Amazon more than nine hours to fully resolve the issues. The outage affected Amazon's home page, Alexa, Amazon Prime Music and Video and many other sites, including Venmo, Roku and streaming companies. It was mid-month before Amazon explained that one of their automated processes caused the outage by triggering a large surge of connection activity that overwhelmed the networking devices and resulted in outages and delays.

OSHA is investigating the collapse of an Amazon warehouse in Illinois that killed six people who were attempting to shelter from a deadly and powerful tornado that left a swath of death and destruction in Kentucky, Tennessee, Arkansas and Illinois. The warehouse was severely damaged. It did not have a basement because the area is prone to flooding. The fatalities occurred outside the designated "take shelter" area.

Amazon began producing their own navy blue, 53-foot branded shipping containers in 2018. In its first year, Amazon Logistics shipped more than 5,300 containers from Beijing to ports in California and Washington state. Since then, Amazon has progressed to the point that they are shipping more than 10,000 of their own containers every month and rank among the top five transportation companies in the Trans Pacific. Since the pandemic started, shipping container prices have surged from under \$2,000 to over \$20,000. Industry observers say that because Amazon charters their own ships, they can choose which ports to unload at, based on availability and port congestion, and can often get unloaded in just a few days. It's all part of their strategy to avoid supply chain bottlenecks and slowdowns.

In the past two years Amazon has almost doubled the size of their fulfillment network, adding more than 450 new facilities used to store, sort and ship items. Many of them are concentrated near big cities, making it easier for Amazon to provide faster delivery to more people. In mid-November more than 98% of packages arriving at Amazon delivery centers were delivered the next day. Previously Amazon used a system which

boxed packages in one facility and then sorted and shipped them in another. Now they are opening more warehouse centers that double as fulfillment and delivery locations.

CANADA SNAPSHOT

Unemployment Drops to 5.9%



- ▶ The unemployment rate fell to 5.9% in December after falling to 6.0% in November, marking the seventh consecutive month the unemployment rate declined.
- ▶ Unemployment peaked at 9.4% in January and is now within 0.2% of its pre-pandemic level.
- ▶ Full-time employment rose by 123,000 jobs, or 0.8% in December, the seventh consecutive monthly gain in jobs.
- ▶ Gains were driven by job growth in the goods-producing sector, with construction adding 27,000 new jobs, the first increase since August 2021.
- ▶ Employment was up in Ontario and Saskatchewan, dropped in Newfoundland and Labrador and was unchanged in the remaining provinces.
- ▶ The labour force participation rate was 65.3% in December, and virtually the same as in February 2020 before the pandemic.

Consumer Prices Jump 4.7%

The Consumer Price Index (CPI) rose 4.7% year over year in November, matching the increase in October. Excluding gasoline, the CPI rose 3.6% year over year, also matching the gain in October. The prices for goods rose more rapidly than the prices for services in November. Prices rose in most provinces with the exception of British Columbia. The decrease in prices there was not tied to the province's flooding problems, as data was collected before the floods. Statistics Canada is monitoring the impact of the floods on the economy and Canada's CPI.

GDP Grows 0.8%

GDP grew 0.8% in October, according to Statistics Canada. Gains for the month were seen across most sectors, including manufacturing, which rebounded 1.8% in October, more than offsetting a September contraction. Also contributing to GDP growth were gains in retail trade, construction and home resale activity. Statistics Canada says total economic activity in October was 0.4% below pre-pandemic levels recorded in February 2020. Statistics Canada noted that preliminary data for November suggests a rise in GDP of 0.3% for the month.

Interest Rates Remain Unchanged

The BoC left the key overnight interest rate unchanged at 0.25% at its meeting in early December. The BoC acknowledged that inflation was broadening but said that the Omicron CV19 variant had created renewed uncertainty. The BoC also dropped a reference to price pressures being "temporary," while noting that employment had returned to pre-pandemic levels. The BoC is concerned that Omicron could weigh on growth by reducing demand for some services, impacting the labour force and compounding supply chain disruptions. The BoC said they would assess the situation again in January. They also agreed to renew their target 2% annual inflation. As is occurring globally, Canada is dealing with accelerated price increases that are fueling concerns about inflation.

Housing and Construction News

Canada housing starts jumped 26% from October to November, reaching 301,279 units, according to Canada Mortgage and Housing Corporation (CMHC). The six-month moving average of the monthly seasonally adjusted annual rate of housing starts was 267,365 in November, up from 264,583 in October. Demand for housing remains strong but labor and

supply constraints have been slowing down permits.

The Canadian Real Estate Association reported that home sales rose 0.6% in November after jumping 9% in October. On a non-seasonally adjusted basis sales fell 0.7% from November 2020. Economists noted that the year-over-year decline was due to low inventory and rising prices which are both discouraging buyers. Sales were up month over month in about three-quarters of all markets. The actual national average home price was \$720,850 in November, up 19.6% from a year ago.

Retail Sales

Retail sales rose 1.6% in October to \$57.6 billion after falling to \$56.6 billion in September. Sales increased in 7 of 11 sub-sectors, representing 59.9% of retail trade. Core retail sales, which exclude gasoline stations and motor vehicle and parts dealers, increased 1.5%. In volume terms, retail sales rose 0.9% in October. The increase was led by a fifth consecutive month of higher sales at general merchandise stores (+2.8%). Sales at building material and garden equipment and supplies dealers rose 3.2%, contributing to the increase. It was the third consecutive monthly increase in sales for this segment, following four months of declines from April to July 2021. Sales were up in all provinces with the exception of Quebec.

Retail Ecommerce Sales

On a seasonally adjusted basis, retail ecommerce sales fell 0.9% in October. On an unadjusted basis, retail ecommerce sales were up 4.2% year over year to \$3.3 billion in October, accounting for 5.5% of total retail trade. The share of ecommerce sales out of total retail sales increased 0.1% compared with October 2020.

Retail Notes

Canadian Tire struck a multi-year agreement with Canadian Pacific to continue moving goods by rail, alleviating the need for CT to shift more volume to trucks. CT has been working with Canadian Pacific for more than 90 years.

MARKET TRENDS

Dodge Construction Forecast

Dodge Construction believes that the economic recovery has resumed following a setback in the third quarter and construction should follow suit. Dodge predicts a 12% increase in the dollar value of construction for 2021 with an overall 6% increase for 2022. With prices rising and materials and labor in short supply the ability to do more with less will be essential in order to keep moving forward. Meanwhile, more people working remotely and low interest rates continue to fuel the residential market, although the pace of starts is slowing.

The various forecasts for housing starts all agree that starts will drop next year from 2021 highs. ConstructConnect estimates a 16.7% increase in total residential work for 2021 and an additional 10.5% boost in 2022. Alex Carrick, ConstructConnect's chief economist, noted that residential is currently accounting for half of the total volume, even though it's traditional share is about 40%. Dodge forecast that single-family starts will end the year up 16% and increase another 4% in 2022. NAHB estimates that total housing starts will rise 13% in 2021 but will fall 1.7% in 2022

NAHB forecasts that single-family home starts will rise 10.7% in 2021 but just 0.2% in 2022; multi-family starts will drop 6.2% in 2022 after rising 19.3% in 2021. However, Robert Dietz, NAHB's chief economist, noted that even a flat year for single-family starts in 2022 will be more than a 20% gain over pre-pandemic construction levels in 2019. All economists agree the substantial and unsustainable run-up in home prices during 2020 and 2021 will make affordability a key issue in 2022.

GDP Forecasts Revised

The rapid spread of the Omicron variant and continued outbreaks of Delta caused forecasters to revise GDP forecasts for the first quarter downward, as the outbreaks led to the cancellations of thousands of flights and events and a sharp pullback in entertaining and shopping in person. Forecasters expect that the first quarter slowdown will be temporary and activity in subsequent quarters will more than make up for it.

The Fed revised their previous forecasts for GDP, inflation

and unemployment. They now expect GDP to grow 4.0% in 2022, up from their previous forecast of 3.8%. The Fed's forecast for inflation in 2022 was also raised to 2.6% from 2.2% previously. The Fed sees core inflation at 2.7% in 2022 versus its previous estimate of 2.3%. The Fed lowered their forecast for unemployment and now expects a rate of 3.5% this year, down from its previous projection of 3.8%.

Goldman Sachs lowered their forecast for GDP for Q1 2022 to 2% from 3%, cut Q2 outlook to 3% from 3.5%, and Q3 forecast to 2.75% from 3%. They cut the forecast because President Biden's massive Build Back Better bill has little chance of passing now that moderate Democrat Senator Joe Manchin has withdrawn his promised support. However, Goldman is holding off on a full-year forecast as their economists believe it is possible that a scaled down or smaller version of the bill may pass, or some elements may be enacted. Moody's cut their Q1 forecast from 5.5% growth to 2.2%.

Fed Sees Rate Hikes Ahead

The Fed's plans to raise its benchmark short-term rate three times this year and pull back bond purchases more quickly than previously announced. The new targets, announced at the Fed's two-day meeting in December, are up from just one rate hike projected in September. Economists say it is likely that the rate increases will start in the second half of the year. The Fed's key rate, now pinned near zero, influences many consumer and business loans, whose rates would likely also rise. The run-up in prices has persisted longer than the Fed expected and has spread from goods like food, energy and autos to services like apartment rents, restaurant meals and hotel rooms. Rising prices have weighed heavily on consumers, especially for lower-income households. Rising prices can also cancel out the higher wages many workers have received. The announcement is an indication that the Fed sees inflation as a bigger threat than unemployment, which has fallen quickly to a healthy 4.2%, down from 4.8% at its last meeting. Consumer prices soared 6.8% in November compared with a year earlier, the fastest pace in nearly four decades.

FTC Looks into the Supply Chain

The Federal Trade Commission (FTC) is looking into supply chain issues and problems. They asked several big companies, including Amazon, Procter & Gamble and Walmart, how they are handling supply chain slowdowns and problems. The

FTC was quick to point out this wasn't part of any law enforcement action. Rather, they want to understand the reasons behind the widespread supply chain problems that have hampered economic growth. However, companies are required to respond with 45 days and provide details about how they are navigating the supply chain crisis.

In a meeting with President Biden, Walmart CEO Doug McMillion said that their inventory levels were up by 10% ahead of the holiday season and they believe that port and transit delays are improving.

A new 90-day incentive programs for containers to be picked up more quickly from the ports of LA and Long Beach was instituted in December by CMA CGM Group, one of the largest international carriers.

The Transportation Department said they would extend the flexibility on the number of hours truck drivers can drive through February and exempt users of terminal gates at ports to from fees for night and weekend pickup of containers. Labor problems are particularly acute for big-rig and long-haul trucking firms because drivers need more credentials, including commercial drivers' licenses, and insurance companies often demand two years' experience before they will provide coverage.

Costs have risen exponentially, with the cost of bringing a standard shipping container from China to LA now \$18,730, more than 13 times the pre-pandemic price, according to the Freightos Index. Long-distance trucking costs have risen 27% over the same time period, according to the Bureau of Labor Statistics.

The fact that many companies are buying more than they need and stockpiling parts and components is actually contributing to shortages. Supply chain consulting company Proxima expects companies to emerge from the pandemic with a hybrid procurement model that blends the elements of traditional just-in-time operations with the more cautious and costly "just-in-case" model that developed during the pandemic.

The share of total imports goods from China has fallen from almost 21% of total imports in 2019 to 17.5% through the first nine months of 2021. Many companies have adopted a "China+One" manufacturing and procurement strategy to try and lessen their dependence on China. Vietnam, Indonesia and India have become more important centers for manufacturing

and procurement. China is also experiencing shortages of labor and containers and dealing with supply chain problems.

When will the supply chain get back to normal? Some business analysts believe that unless demand falls it could be late 2022 or even 2023 before the global supply chain begins to regain some degree of normalcy. Since April 2020 consumer spending on goods has jumped 32% and is now 15% above the pre-pandemic level in 2019. Goods now accounts for 40% of consumer spending, up from 36% prior to the pandemic.

Second-Home Construction Booming; Urban Exodus Slowing

The second-home building market is booming and the mass exodus from cities to suburbs and beyond has slowed and in some areas reversed, according to NAHB's third quarter Home Building Geography Index (HBGI).

Workers transitioning back to the office spurred a rebound in housing production in urban core markets and fueled growth in exurban areas. The four-quarter moving average for large metro core area single-family permit growth between the third quarter of 2019 and 2020 was 5.6%, while exurbs grew at a rate of 12.3%. Over this same four-quarter period between 2020 and 2021 new permit rate of growth increased to 21.1% for large metro core markets and 30.8% for the exurbs.

Second home markets continue to see construction growth. The permit growth rate was higher in traditional second home markets (counties with a large share of existing second homes). Between the third quarter of 2020 and 2021, the growth rate for single-family home building in these second home markets was 36.1%, compared to an average of 23.2% for non-second home markets.

Covid Cancellations

Big-name tech firms such as Google, Lenovo and Intel cancelled plans to attend January's Consumer Electronics Show in Las Vegas, joining an exodus fueled by fear of Covid-19. The three are part of a growing list of companies opting not to put employees at risk by staffing events, exhibits or briefings at the annual gadget extravaganza. Facebook parent company Meta, Amazon, T-Mobile and Twitter also canceled their appearances. Exhibitors confirmed to attend had topped 2,100. Show organiz-

ers offered free Covid-19 rapid testing kits to attendees as an added level of safety and reminded all attendees that they must be fully vaccinated.

Another major conference planned for January, the World Economic Forum, is delaying its annual meeting of the world's economic leaders in Davos, Switzerland, due to Omicron. They hope to reschedule for summer.

Many companies have once again delayed plans to have employees return to the office and some universities have already postponed the start of classes or gone virtual.

Retail Crime Spree

Organized retail theft has become an even bigger issue than usual, with retailers plagued by well-run gangs and flash mobs that overwhelm a store and make off with thousands of dollars' worth of merchandise in just minutes. The National Retail Federation estimates that \$719,458 dollars were lost to theft for every \$1 billion in sales.

Criminals are capitalizing on the anonymity of the internet which makes it easy for them to unload stolen brand-name goods. Thieves were captured on camera making a raid on one Home Depot store and making off with sledge hammers, undoubtedly to use in attacking other retailers.

CEOs from 20 major retailers, including The Home Depot, asked Congress for help. There is some bipartisan support for the Integrity, Notification and Fairness in Online Retail Marketplaces (INFORM) Consumers Act, which aims to increase transparency for online retail marketplaces, slow the sale of counterfeit goods online and increase verification protocols for buyers. Organized crime and looting that takes place during business hours while customers are present has caused some retailers to close stores in high-problem areas.

Point of Sale Activation is one tool that retailers are using to deter the in-store theft of pricey power tools and other electronics. POSA is powered by Bluetooth technology built into certain products with an on/off switch that must be activated at the register. If it isn't, the product won't turn on, making it worthless to thieves. The Home Depot has been testing a POSA system, and plans to extend its use to more stores and potentially more product categories.