BOSCH

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## US ECONOMY

### Exchange Rates June 30, 2022

| | | |
|---|---|---|
| **Euro** | 1 Euro = $1.047 | $1.00 = 0.955 Euros |
| **Canadian Dollar** | 1 CAD = $0.777 | $1.00 = 1.287 CAD |
| **Japanese Yen** | 1 Yen = $0.008 | $1.00 = 135.758 Yen |
| **Chinese Yuan** | 1 Yuan = $0.149 | $1.00 = 6.700 Yuan |
| **Mexican Peso** | 1 Peso = $0.050 | $1.00 = 20.128 Pesos |

### Market Watch June 30, 2022

| | | |
|---|---|---|
| **DOW** | 30,810 | -6.6% |
| **NASDAQ** | 11,031 | -8.7% |
| **S&P 500** | 3,786 | -8.4% |

All three indexes finished the month and the quarter solidly in the red. The S&P notched a 21% decline for the first half, its steepest percentage drop for the first half since 1970, the Nasdaq had its largest ever first half drop and the Dow recorded the biggest first-half plunge since 1962. All three indexes also posted their second straight quarterly declines.

### Consumer Spending Rises 0.2%

**Consumer spending rose 0.2% in May** after rising a downwardly revised 0.6% in April. It was the smallest increase in spending in five months. Data going back to January was also revised down, showing that consumer spending has been softening. Spending on goods dropped 3.2% for the month and spending on services rose 0.7%. The increase was below expectations. Personal income rose 0.3% in April after rising 0.5% in March and the savings rate fell to 4.4%, the lowest rate since 2008, as Americans dipped into savings to support spending.

### Consumer Prices Rise 1.0%

**The Consumer Price Index (CPI) rose 1.0% in May** to a new 40-year high of 8.6% year over year. Core inflation, which excludes the volatile food and energy categories, rose 0.6% for the second consecutive month and was up 6.2% year over year. The typical family is spending about $450 a month more to buy the same goods and services as they did last year. Food and energy, the largest parts of many household budgets, have risen sharply over the last 12 months. The energy index is up 34.6% year over year, the largest 12-month increase since the September 2005. The food index increased 10.1%, the first time it has topped 10% since March 1981. The personal consumption expenditures (PCE) price index rose 0.6% last month after gaining 0.2% in April. In the 12 months through May, the PCE was up 6.3%. Excluding the volatile food and energy components, the core PCE price index rose 0.3% for the fourth consecutive month and was up 4.7% year over year, the smallest increase since last November. The PCE price indexes are the Fed's favored measures for their 2% inflation target.

### Consumer Confidence Falls to 98.7


- The New York-based Conference Board's Consumer Confidence Index fell to 98.7 in June after dropping to 106.4 in May.*
- The Present Situation Index, which is based on consumers' assessment of current business conditions, fell to 147.1 after falling to a downwardly revised 147.4 in May.
- Expectations for the next six months dropped sharply to 66.4 after falling to a downwardly revised 73.7 in May. It was the lowest reading for Expectations since March 2013.
- Inflation continues to be the top concern for most people.
- In May 2020 Consumer Confidence was 120.0.
- 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.

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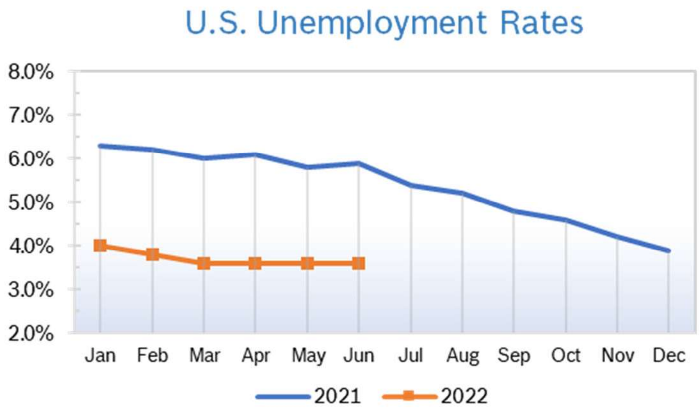
## Unemployment Remains at 3.6%




- The unemployment rate remained at 3.6% for the third consecutive month in June. Unemployment was 3.5% at the start of the pandemic in March 2020.
- The economy added 372,000 new jobs*, well ahead of expectations of 250,000 jobs. Job gains for May were revised up to 384,000.
- Average hourly wages grew 0.0% in June and 5.1% year over year, compared with May's 5.3% year over year gain.
- The jobs report heightened expectations that the Fed will once again raise rates by at least three-quarters of a point at their meeting in late July.
- There are 1.034 available workers for each job opening, up just slightly from the record low of 0.957 in April, according to the latest Job Openings and Labor Turnover Survey (JOLTS). The JOLTS report did show that the total number of private-sector job openings and the number of private-sector quits eased in April and May, suggesting the job market make be loosening up a bit.
- Construction added 13,000 jobs in June; retail shed 61,000 jobs.

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

## Chicago PMI Falls to 56

**The Chicago Purchasing Managers Index (Chicago PMI) fell to 56 in June** after rising to 60.3 in May. It was the 24th consecutive month the index remained in positive territory. The index for New Orders fell 9.8 points to 49.9, so slightly into contraction. Order Backlogs dropped by 9.4 points to a 19-month low of 55.2. Inventory growth also slowed after rising at the fastest pace in 50 years in May. Prices Paid fell 9.0 points to 79.6, its lowest reading since February 2021. More than 40% of respondents to a special question reported that they did not plan to slow hiring despite rising employment costs. A PMI number above 50 signifies expanded activity over the previous month. 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 0.8%

**The Producer Price Index rose 0.8% in May** after rising a downwardly revised 0.4% in April and was up 10.8% year over year after being up a downwardly revised 10.9% in April. Core inflation, which excludes the volatile food and energy categories, climbed 0.5% in May after rising 0.6% in April and was up 8.3% from May 2021. Prices of goods climbed 1.4%, driven by a 5% increase in energy. Services prices were up 0.4% from April, after dropping in the prior month. That advance included a 2.9% jump in transportation and warehousing costs. After a slight break, China reimposed CV19-related shutdowns and the war in Ukraine continues to keep fuel prices elevated and disrupt supply chains. However, some commodity prices have declined.

## Q1 GDP Drops 1.6%

**GDP shrank a downwardly revised 1.6% in the first quarter** from a 1.5% decline in the second reading and a 1.4% drop first reported by the Commerce Department. Consumer spending grew at a revised annual rate of just 1.8% in the first quarter, down from a previous estimate of 3.1%. The Fed believes the US economy is strong enough to deal with rate hikes without going into a recession because of exceptionally strong growth in 2021. IHS Markit economists forecast second-quarter gross domestic product growth of an annualized 0.1%, weaker than 1% growth they forecast earlier in June. The Atlanta Fed's closely watched forecast is projecting 0.3% growth for the second quarter.

## Fed Raises Rates 0.75%

**The Fed raised rates by 0.75% to a range of 1.5% to 1.75%** at their meeting in mid-June. The biggest increase in rates since 1994 was in line with expectations but three times the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usual rate increase. The Fed is using the only tool at its disposal to try and tamp down inflation and demonstrate that they believe that the economy is strong enough to continue to recover without further support from the Fed. Market watchers expect another 0.75% at the next meeting. Traders generally see the benchmark rate ranging between 3.25% and 3.50% by the end of the year, rates that are still quite low by historical standards. The Fed sees inflation topping 5% by the end of the year before rapidly falling back in the wake of aggressive rate hikes. The committee's median forecast for the unemployment rate in 2022 rose to 3.7% from 3.5%. The rate is then seen rising to 3.9% in 2023 and 4.1% the following year. The outlook suggests the Fed's efforts to cool inflation will have some adverse effects on the labor market.

## HOUSING & CONSTRUCTION

### Builder Confidence Falls to 67

**Builder confidence fell two points to 67 in May** after falling eight points to 69 in April, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). It was the sixth consecutive month the HMI declined after hitting an all-time high of 90 last November. Rising inflation and higher mortgage rates are leading to slowing traffic and shaking confidence. All three major indices that make up the HMI posted declines in May. The component charting traffic of prospective buyers fell five points to 48, marking the first time this gauge has fallen below the breakeven level of 50 since June 2020. The HMI index gauging current sales conditions fell one point to 77 and the gauge measuring sales expectations in the next six months fell two points to 61. Scores fell in all regions. Any number over 50 indicates that more builders view the component as good than view it as poor.

### Building Permits Fall 7.0%

**Overall building permits fell 7.0%** to a 1.70 million unit annualized rate in May after falling in April. Single-family permits dropped 5.5% to a 1.05 million units, the lowest pace for single-family permits since July 2020. Multifamily permits decreased 9.4% to an annualized 647,000 pace. Regional permits were mixed year to date.

### Housing Starts Fall 14.4%

**Housing starts fell 14.4% in May** to a seasonally adjusted annual rate of 1.55 million units after rising to 1.72 million units in April. **Single-family starts dropped 9.2%** to 1.05 million units after falling less than first reported in April. Multifamily starts fell 23.7% to 498,000 units after rising to 624,000 units in April. Starts were up in all regions. NAHB says prices for construction materials are up 19% year to date and supply chain disruptions need to be resolved so builders can increase production and contain costs. Rising costs and climbing mortgage rates continue to make housing less affordable and price more first-time buyers out of the market.

### New Home Sales Rise 10.7%

**New home sales rose 10.7% in May** to a seasonally adjusted annual rate of 696,000 homes from an upwardly revised reading in April. Sales were down 5.9% from May 2021 and 10.6% year to date. The median new home price fell to $449,000 in May after jumping to $450,600 in April and was up 15% year over year. New single-family home inventory fell to a 7.7 months' supply but was up 42.6% from May 2021. However, only 8.3% of those homes are completed and ready to occupy. New home sales 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 3.4%

**Existing home sales fell 3.4% in May** to a seasonally adjusted annual rate of 5.41 million units after falling to 5.61 million units in April, according to the National Association of Realtors. It was the fourth consecutive month existing home sales fell. Sales were down 8.6% from May 2021. The inventory of existing homes rose to 1.16 million, a 2.6-months' supply of homes at the current sales pace, up from 2.2 months in April. The median existing-home sales price was up 14.8% year over year to $406,000. the first time the median home price has been over $400,000. Year-over-year prices have now risen for 122 consecutive months. Properties were on the market for an average of just 16 days in May, with homes priced under $500,000 being snapped up in even less time. All-cash sales fell to about 25% of sales and the percentage of first-time buyers continued to fall as mortgage rates rise.

## Regional Housing Data

| | **Northeast** | **South** | **Midwest** | **West** |
|---|---|---|---|---|
| Builder Confidence | 71 (-1) | 78 (-2) | 56 (-6) | 74 (-9) |
| Building Permits YTD | -8.3% | 4.6% | 5.2% | 1.6% |
| Housing Starts Y/Y | 2.1% | 12.9% | 1.2% | 4.3% |
| New Home Sales* | -3.8% | -12.3% | -21.7% | -2.2% |
| Existing Home Sales* | -9.3% | -8.4% | -7.5% | -10.0% |

* Year over Year **unchanged

## Mortgage Rates Rise to 5.7%


- 30-year fixed-rate mortgages rose to 5.7% at the end of June 5.1% at the end of May. Mortgage rates were 3.0% at the end of June 2021.
- Mortgage rates rose for the first half of the month and then leveled out, giving the market a chance to rebalance to a more normal level of price appreciation.
- Mortgage interest rates have jumped more than 2% since the start of the year.
- Rising rates, lean inventories and high prices have all contributed to a slowdown in the housing market.
- Freddie Mac expects home price growth to begin cooling off as the market rebalances.

## POWER TOOL INDUSTRY

### Robert Bosch Tool Corporation

**The Bosch Group is investing $295 million to set up a new venture capital fund for startups.** Bosch Chairman of the Board of Management Stefan Hartung noted that their investment in startups promotes technological progress in business and society and is also good for Bosch. Solutions to ever more complex tasks are often discovered more quickly in partnership, according to Hartung. Bosch will also be investing billions in energy efficiency, climate neutral technology and the digital transformation of their business.

### Stanley Black & Decker

**Wolfe Research and UBS Global Industrials & Transportation Conferences:**

**With the sale of their Securities companies, they are now a simpler company** with a simpler organizational structure so will be able to focus their investments in areas that drive growth, margin expansion and strong free cash flow.

**There are a lot of opportunities in the Power Tools and Hand Tools businesses** that focus around battery technology, motor technology, tool size and productivity and digital innovations.

**They believe they can grow two to three times faster than the GDP**; if GDP is 3%, their growth should be somewhere between 6% and 9%. They believe in order to achieve that growth, they may need to shift their focus in some areas. They will look closely at corporate investments and centers of excellence and if their paybacks are more than three or four years they will reallocate those resources and reinvest in key categories, such as innovation, adding engineers to the Power Tools and Outdoors business and other growth categories.

**They need to aggressively accelerate their supply chain transformation** that was put on hold because of the significant growth driven by pandemic demand. They believe they can gain $1 billion in P&L efficiencies over the next five years.

**They are also testing much higher levels of automation** that could take the number of people needed for a particular line


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from 10 to just two; in addition to needing less labor, it would make it much easier to run production lines around the clock.

**They are delayering their business** and moving to a more corporate operating model in order to get closer to the 5-layer model truly great companies have instead the 8-layer one they currently have.

**They see significant growth opportunities in ecommerce.** Ecommerce is about 20% of their business for Tools & Outdoor.

**Partnerships with battery and semiconductor manufacturers** will help assure the supply of components that are integral parts of their products.

**Power Tools demand continues to be very strong,** especially in the Pro business. The demand for Pro Tools is high and inventory in that channel is very low.

**In the Power Tools space they believe they and one major competitor made significant share gains**, the next two major competitors maintained share and most of the smaller manufacturers lost significant share. Many of the smaller players sell niche tools, which must have a significant competitive advantage and enough demand in the market for the big customers to give them shelf space.

**Hand Tools & Storage sales have flattened out from a demand perspective,** but still represent significant growth over 2019. If their customers start to worry about inventory levels they may pull back on orders, so they are watching orders very closely. If demand changes they will modify production levels.

**They need to do a fourth round of pricing actions for Power Tools** and will be in discussions with their partners in early summer. They have a hard time factoring in even more inflation going forward since everyone has already priced in significant cost impacts.

**They've been through many types of recessions and are looking at their various playbooks.** While no one likes recessions, they do give them an opportunity to accelerate margin rate expansion and get back to the rates they require to grow.

**JPMorgan Homebuilding and Building Products Conference:**

**They've dealt with $2.7 billion in hyperinflation over the past three years** which requires a different approach to price recovery. Everyone is taking price increases in some way, whether it's new product introductions, mix management, promotional limitations or other actions. When looking at price over the year, it's about a 20% increase over 12 months.

**They now anticipate their volume for the full year will be down 2% to 3%** with about one-half to one percent due to the closure of their Russian business after Russia's invasion of Ukraine.

**TTI is a very serious competitor and they expect TTI to continue to gain share.** They believe they will also continue to gain share. They believe they are better positioned to take advantage of growth opportunities in the digital space. Robotics and automation are also great opportunities going forward.

**Wells Fargo Industrial Conference:**

**They intend to defend their share in Power Tools.** If market prices start coming down and pricing gets more aggressive they will defend share and serve their channel partners. They don't see surcharges ahead and everyone understands that when commodities drop significantly then prices will drift down, which will be good for the consumer.

**Even though they've solved their chip supply problems, there is still a lot to do** before the tools actually come out, so they are targeting the third quarter for increased production and supplies.

**They believe consumer demand will be more elastic than Pro demand,** although serious DIYers love their tools.

**James Loree addressed inflation historically** by noting that he went to college in the late 70s and graduated in 1980. The mortgage rate on his first home was 12% and his first auto loan was at 14%. He said those rates sound crazy now, but everyone just managed it.

**Other News:**

**CFO Don Allan will become CEO July 1.** He will succeed James Loree, who is leaving the company July 1. Loree joined the company in 1999 as CFO and became CEO in 2016. Allan took on the role of president in addition to CFO in February


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2021. *The Wall Street Journal* reported that Allan will need to get a handle on the company's supply chain problems and rebuild credibility among investors, particularly in areas such as margin and strategy execution. SB&D stock has underperformed the S&P in recent months.

**Despite the fact that Loree moved into the job along the same path, it's relatively rare for a CFO to become CEO,** with just under 8% of the CEOs from companies in the S&P 500 and Fortune 500 coming from the CFO seat. Loree stated that he has worked with Allan for the past 23 years and is pleased and proud to pass the baton to a leader of his extraordinary caliber.

## RETAIL

### Retail Sales Fall 0.3% in May

**Retail sales fell 0.3% in May** and April sales were revised down to a 0.7% increase from the 0.9% first reported. It was the first decline in five months and below expectations. Analysts blame surging inflation for necessities such as gas and food for consumers reining in discretionary spending. The national average price at the pump reached more than $5.00 per gallon, up from $4.45 in April and more than $2, or 60%, from May 2021. May sales fell in nearly half of the categories on a monthly basis but were up year over year in eight out of nine categories, led by building materials and supplies, up 0.2% for the month and 8.8% year over year. Online sales fell 1% for the month as consumers returned to shopping in stores but were up 8.5% year over year. Core retail sales rose 1.0% in April and core sales for March were revised up to a 1.1% increase from the initial 0.1% decline reported. Core retail sales correspond most closely with the consumer spending component of GDP.

### The Home Depot

**THD is moving veteran CIO Matt Carey into a newly created role dedicated to customer experience technology.** THD was one of a group of companies that benefited from demand created by the pandemic and introduced many innovations aimed at improving the customer experience. THD says the new role reaffirms their commitment to make shopping at THD a truly interconnected, easy experience for their customers.

Fahim Siddiqui will be stepping in as CIO; he's been the company's senior vice president of information technology since 2018. Both positions will report to new CEO Ted Decker.

**THD launched Home Depot Ventures,** a $150 million fund that will invest in companies that advance THD's ability to provide an interconnected shopping experience and develop new and differentiated capabilities.

**THD introduced StyleWell Kids**, a collection of 65 home décor items for children, including bedding and shower curtains. The announcement came a day after the launch of a Gap Kids collection at Walmart.

**THD passed out 15,000 Kids Workshop Birdhouse Kits** to children attending the annual White House Easter EGGucation Roll. Kids Workshops have been going on at THD stores since 1997, but since the pandemic THD has offered kits and video instruction so that children could continue building at home.

**THD partnered with Klein Tools** to celebrate and support high school, college level and post-secondary students entering the skilled trades industry. The Home Depot Foundations Path to Pro program offers free education, hands-on training and certifications for youth, military service members and underserved communities. Today more than 15,000 participants have been introduced to the skilled trades with more than 5,000 becoming certified.

### Lowe's

**Lowe's plans to open their new technology hub in Charlotte sometime this summer.** Lowe's previously said they planned to invest $153 million and staff the hub with more than 2,000 tech employees. They have already hired more than 1,200 people and are still actively hiring. Some will work at the hub full-time while others will have hybrid schedules.

### Walmart

**Walmart will soon unveil four next-generation fulfillment centers** that will allow them to provide fast shipping for 75% of the US. The first center will open this summer in Joliet, Illinois. The massive FCs will combine people, robotics and machine learning to set new standards for speed of fulfilment while creating a positive work environment for associates. The new centers will employ more than 4,000 workers. WM already has 31

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ecommerce fulfillment centers. The new ones feature technology from intelligent-fulfillment firm Knapp, which utilizes robotics and artificial intelligences for logistics. The centers will use a patent-pending process for receiving and unloading cases that is highly automated and makes maximum use of space.

## Ace Hardware

**Ace is moving to The Reserve,** the 80-acre campus in Oak Brook, Illinois that was the former headquarters of McDonald's. Ace says the space offers more flexibility, amenities and space to support their continued growth, according to Ace CEO John Venhuizen. Ace has been located in Oak Brook since 1974. The property will go through an extensive interior renovation before Ace moves in. It will the first time Ace's more than 1,000 Oak Brook-based employees will be in a single building. The new campus will have an on-site cafeteria, state of the art fitness center, heated indoor parking, floor to ceiling windows, outdoor terraces, patios and gathering spaces and easy access to more than 2.5 miles of walking paths and two ponds.

**Ace partner The Grommet welcomed Etsy and Amazon sellers to what they termed an alternative selling model** that does away with unpredictable and rising fees for a variety of categories. The Grommet makes money by partnering with promising inventor-sellers and working together to reach potential customers and build their brands.

**Ace threw a Fourth of July BBQ Party the week before the holiday,** which is the nation's largest grilling day of the year. Ace is showcasing a number of grills and offering free delivery and assembly on all grills $399 and up.

## Amazon

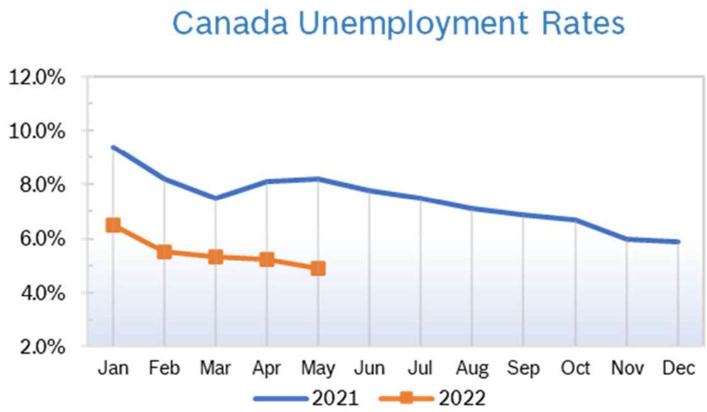
**Amazon will hold their annual Prime Day sales event July 12 and 13.** Prime Day comes as the company is dealing with a slowdown in online shopping. Amazon won't say how much money Prime Day brings in, but they are typically the busiest shopping days of the year for Amazon. Amazon said 250 million items were bought during the event last year.

**Amazon's chief executive of their online consumer business stepped down in early June.** Dave Clark had been with Amazon since he graduated from business school 23 years ago. His departure further solidifies all the executive changes that began with Jeff Bezos turning over the reins to Andy Jassy. Clark tweeted that he had been wanting to "start a new journey" for some time, but was waiting for the right moment. There has been constant turmoil in Amazon's warehouse and delivery operations under his oversight since the pandemic, as more than 150 changes had to be made to warehouse and delivery facilities and procedures. Clark was also faced with an increase in union organizing activity and increased scrutiny of Amazon's safety conditions, along with a shortage of workers willing to fill warehouse jobs. Amazon recently reported their first quarterly loss since 2015 and is now looking to sublet 10 million square feet of warehouse space.

**Company insiders had speculated that Amazon could scrap Clark's role** and instead have three retail and operations chiefs report directly to CEO Andy Jassy, but Doug Herrington, the company's senior vice president of North America consumer, was named as Clark's replacement. However, the title of the job was tweaked and Herrington, now a member of the company's senior leadership team known as the "S-team," will be the CEO of Worldwide Amazon Stores.

## CANADA SNAPSHOT

### June Unemployment Falls to 4.9%




- The unemployment rate fell by 0.2% in June to 4.9%, the fourth consecutive month at the lowest rate on record since comparable data became available in 1976. In January 2021 unemployment peaked at 9.4%.
- Employment fell by 43,000 jobs in June after holding steady in May.
- Employment rose in some sectors but fell in retail and among people aged 55 and older. Employment in services-producing sectors declined while employment in goods-producing sectors rose.
- Construction added 23,000 jobs.
- The labour market has become increasingly tight over the past several months.
- With the labour market tightening, average hourly wages for employees rose 5.2% to $31.24 after rising 3.9% in May.

### Consumer Prices Rise 7.7%

**The Consumer Price Index (CPI) rose 7.7% year over year in May** after rising 6.8% in April, according to Statistics Canada. It was the largest year-over-year increase since January 1983. It was the fifth consecutive month the CPI has been over 5%; the last time the CPI was over 5% was in 1991. Inflation has exceeded the Bank of Canada's (BoC) target range of 1% to 3% for fourteen consecutive months. Price increases were broad-based in May. Excluding the volatile food and energy categories, the core CPI was up 6.3% year over year after rising 4.2% in April. On a monthly basis the CPI was up 1.4% in May after rising 0.6% in April. The jump in May was the largest monthly increase since the introduction of the series in 1992. Energy prices were up 34.8% year over year and grocery prices and shelter costs remain elevated. New home prices are beginning to show signs of moderating.

### Bank of Canada Raises Rates to 1.5%

**The Bank of Canada (BoC) raised rates by half a percentage point in early June** as part of their efforts to get inflation back under control. The move was widely expected, but the BoC warned of higher inflation and more rate hikes ahead as they move aggressively to try to tamp down inflation while still avoiding a recession. The BoC also raised rates in March and April after holding borrowing costs at record lows for the first two years of the pandemic. Inflation hit a three-decade high of 6.8% in April. The bank's comments could foreshadow a .75% increase ahead.

### First Quarter GDP Rises 0.8%

**GDP grew 0.8% in the first quarter of 2022,** mainly on the strength of increased business investment and household consumption, according to Statistics Canada. It was the third consecutive increase in quarterly GDP. Investment in residential construction rose for a second consecutive quarter, up 4.3%, as renovations (+9.3%), resale costs (+4.6%) and new construction (+0.2%) all increased. Aside from Alberta and the territories, new construction increased in every province.

**Household spending rose 0.8% in the first quarter,** the third consecutive quarterly increase, as spending rose on most goods and services despite limited capacity restrictions throughout Canada on in-person shopping and services.

**Outlays for durable goods increased 2.6% in the first quarter,** following a 0.3% increase in the fourth quarter of 2021. Aside from the third quarter of 2020, this was the largest quarterly increase of durable goods outlays in five years.

**Outlays for services rose 0.7% in the first quarter,** a seventh consecutive quarterly increase. Increases in wages and reductions in spending pushed the household savings rate up to 8.1%, which followed a 6.9% savings rate in the fourth quarter

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of 2021. By comparison, the average household savings rate over the decade prior to 2020 was 3.5%.

## Housing and Construction News

**Housing starts rose 8% in May** to 287,257 units compared with 265,734 in April. The increase was primarily due to an increase in urban starts and multiunit construction, according to Canada Mortgage and Housing Corporation (CMHC). The level of starts remains historically high and has been well above 200,000 units since 2020.

**Home sales continued to fall in May,** dropping nearly 9% from April and down 22% year over year to 53,720 homes, according to the Canada Real Estate Association (CREA). Realtors report that prospective buyers are able to negotiate more than they could in previous months and are once again asking for home inspections. The average seasonally adjusted price in May fell 4% from April to $700,438 and was up just 3% from May 2021. CREA forecast the national average home price will rise by 10.8% on an annual basis to $762,386 in 2022 and expects the largest gains to come from the Maritime provinces, Ontario and Quebec. The national average home price is expected to rise by another 3.1% to $786,282 in 2023. Excluding the Greater Toronto and Vancouver areas reduces the national average price by $138,000. Sellers are still coming to terms with how the market has shifted and some are even holding back on listing their homes.

**Home prices have gone up 53% nationally over the past two years,** according to a report from Bank of Canada. The percentage of homes bought by investors has also gone up from 19% to 22%; many investors borrowed against their homes to take advantage of skyrocketing home prices. Rising mortgage rates and prices are pushing more people to the sidelines and making it tougher for investors to sell homes. The report noted there could easily be a 10% correction in home prices, although that will vary from region to region.

## Retail Sales

**Retail sales increased 0.9% to $60.7 billion in May.** Sales were up in 6 of 11 subsectors, representing 43.3% of retail trade, led by higher sales at general merchandise stores (+4.2%). Core retail sales, which exclude gasoline stations and motor vehicle and parts dealers, increased 1.0%. In volume terms, retail sales were up 0.9% in April. The largest decline in sales came from building material and garden equipment and supplies dealers, where sales fell 4.3%. It was the first decline in that sector in four months. Retail sales rose in eight provinces.

## Retail Ecommerce Sales

**On a seasonally adjusted basis, retail ecommerce sales were up 0.9% in April.** On an unadjusted basis, retail ecommerce sales were down 21.0% year over year to $3.3 billion in April, accounting for 5.2% of total retail trade. The share of ecommerce sales out of total retail sales fell 2.0% compared with April 2021 as people shopped more in stores.

## Retail Notes

**Canadian Tire garnered a lot of positive free publicity** when they lined the front lawns of homes in the Danforth neighbourhood in Toronto with massive pink flamingos, unicorns, garden gnomes and dairy cows, all part of an advertising campaign to celebrate the company’s centennial anniversary. Nearly 50 homeowners agreed in advance to place the floaties on their lawns. No word as to why they chose Danforth, but Canadian Tire has long appealed to middle-class homeowners in need of gardening tools and sports equipment for the kids and is now facing stiff competition from other retailers, including Walmart and Amazon.

# MARKET TRENDS

## Ecommerce Search Ad Spending Soars

**eMarketer estimates that US ecommerce search ad spending will rise to $55.72 billion by 2026**, up from $27.10 billion this year. Display advertising will more than double from $8.86 billion this year to $17.31 billion. *Insider Intelligence* also estimates that Amazon will account for 77.7% of US ecommerce channel ad revenue this year, or $27.94 billion of the $35.96 billion. Amazon’s share of ecommerce ad revenues is shrinking but is still growing in the double digits, recording 56.5% growth in 2020. Other top retailers, including Walmart, saw revenues grow less than expected. Ecommerce overall has been losing share to brick and mortar since pandemic restrictions eased



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and people began traveling, eating out and going to entertainment venues again.

## A Bad Time to Buy a Home

**A majority of Americans responded to a recent Gallup poll by saying that now is a bad time to buy a home,** citing rising mortgage rates, record-high home prices, soaring inflation and limited supplies. It's the first time since 1978 that most Americans agreed it was a bad time to buy. While still historically affordable, interest rates have zoomed up 75% in a few short months, driving up monthly mortgage payments by 30%, or more than $500 per month on a $400,000 mortgage. That means people would need an additional $12,000 of annual income to qualify. In addition, the cost of everything related to buying or remodeling a home has also gone up, with construction materials up 31.3% since January 2020. Labor and services have also jumped, and labor is in short supply. The Case-Shiller National Home Price Index shows single-family home prices have risen 34% since the start of the pandemic. Most housing analysts believe the double-digit pace of annual price increases will slow but still expect mid-single-digit gains this year. Low inventory is also contributing, as housing inventory is down 9.5% from a year ago, leaving prospective buyers with just a 2.5-month supply of homes compared to about a 6-month supply in a normal market.

## No Shortage of Labor at Retail

**Both Walmart and Amazon said they were overstaffed during their recent quarterly earnings calls** with analysts. Throughout the past several months most businesses struggled to find employees and deal with short staffing situations created by many people being out sick on CV19 leave. Walmart and Amazon both hired extra staff at the end of 2021; when cases declined in the first quarter employees came back to work sooner than expected and wage pressure ate into profits and reduced productivity, with both retailers quickly going from understaffed to overstaffed. Walmart said the problem was resolved during the first quarter, primarily through attrition. A *New York Times* investigation last year found that hourly workers have a turnover rate of about 150% each year.

## Stores Overstocked with the Wrong Stuff

**Chains like Walmart, Target and Kohls are finding themselves with way too much inventory** that consumers no longer need or want, including basic apparel, home appliances and furniture. Retailers determined to take advantage of holiday demand cushioned orders and now shelves are overflowing. There are basically two shifts going on now. Some consumers are switching from discretionary spending to essentials and getting pickier about what they spend money on. There is also some trading down going on, or switching to smaller sizes or private labels. In addition spending is shifting to what shoppers need as they go back to the office, attend concerts and events, travel again and struggle to keep both their gas tanks and their refrigerators full.

## Fed Grants for Battery Production

**The US Energy Department announced $3.1 billion in grants for battery and component production** to support new, expanded or retrofitted facilities. They are also earmarking $60 million toward electric vehicle battery recycling and reuse as part of the administration's push for electric vehicles (EVs) to comprise half of all US vehicles sold by 2030. Funding is coming from the new federal infrastructure investment law, which includes more than $7 billion for battery supply-chain related investments between fiscal 2022 and 2026. The US currently has 13% of global lithium-ion battery cell production, compared to China's 80% share, and domestic factories account for just 10% of global manufacturing plants currently planned or under construction.

## Amazon's First Fully Autonomous Robot

**Amazon's first fully-autonomous robot was put to work** a decade after Amazon bought robot coordination and fulfillment company Kiva and made its first nearly billion-dollar bet on robotic automation. Amazon now employs about 200,000 robots across its 1,137 fulfillment centers but, up until now, the bots have never worked freely alongside human Amazon workers. Their new addition, named Proteus, was built for autonomy and to safely work around employees.

**Proteus resembles a giant iRobot Roomba,** but with friendly, monochrome eyes that blink in the front. The flat robot rolls under an Amazon GoCart product cage full of products and automatically balances loads to prevent it from tipping over. After so many trips, Proteus will navigate to a charging station and plug itself in. The robot is programmed to stop when a person crosses it's path. For now, Proteus is confined to warehouses with

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GoCart handling areas but Amazon plans to expand Proteus throughout their inventory and fulfillment network.

**Amazon also unveiled Cardinal**, a single-arm robot that, using AI and computer vision, can identify, lift, and sort heavy packages that weigh up to 50 pounds.

## Drone Delivery Expands

**Amazon will begin drone delivery to several towns in Northern California this year.** The Amazon Prime Air drones can carry packages that weigh 5 pounds or less, filled with items such as beauty and cosmetic items, office and tech supplies and batteries and household goods. Customers will also need to identify a suitable landing area for the newly redesigned drone, reportedly now about the size of a large shoe box with a hexagonal shape. Since former CEO Jeff Bezos appeared on a "*60 Minutes*" segment in 2013 to announce Amazon would begin delivering packages by air within four to five years the program has been plagued by crashes, one of which started a brush fire, and other problems.

**Walmart said they're expanding their "DroneUp" delivery network to 34 sites** by the end of 2022, giving it the opportunity to reach 4 million US households across six states. Despite all the past setbacks, they expect to be able to deliver more than 1 million packages by drone in a year.

**Technologists believe that one day in the not-too-distant-future, drones will be as common as cars.**

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