

Market Briefing

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RETAIL

Retail Sales Rise 0.9%

The Home Depot

- Q1 sales rise 3.8% to \$38.9 billion. Comp sales rise 2.2% overall and 1.7% in the US.
- Q1 conference call with analysts

Lowe's

- Q1 sales fell to \$23.7 billion. Comp sales fell 4%.
- Q1 conference call with analysts

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- Expands supply chain partnership

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- First quarterly loss
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Inflation Threatens Back to Work

Brands Winning D2C Ecommerce

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Buy America Causes Controversy

Consumers Want to Shop In-Store

Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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US ECONOMY

Exchange Rates May 31, 2022

Euro	1 Euro = \$1.073	\$1.00 = 0.932 Euros
Canadian Dollar	1 CAD = \$0.791	\$1.00 = 1.264 CAD
Japanese Yen	1 Yen = \$0.008	\$1.00 = 128.543 Yen
Chinese Yuan	1 Yuan = \$0.150	\$1.00 = 6.671 Yuan
Mexican Peso	1 Peso = \$0.051	\$1.00 = 19.689 Pesos

Market Watch May 31, 2022

DOW	32,990	0.04%
NASDAQ	12,081	-2.1%
S&P 500	4,132	0.01%

It was another roller coaster month for the markets, with indexes plunging mid-month and the S&P flirting with bear territory amid fears of inflation and recession. Then better corporate news and solid consumer spending sent markets into positive territory during the last week of the month before they fell back again the last day of trading.

Consumer Spending Rises 0.9%

Consumer spending rose 0.9% in April after rising 1.1% in March. Spending was well above expectations as Americans dealt with higher prices to treat themselves to airline flights, road trips, sporting events and other experiences they did without during the pandemic. Spending on goods rose 1% for the month and spending on services rose 0.5%. However, the cost of goods is rising faster than the cost of services. 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 Rose 0.3%

The Consumer Price Index (CPI) rose 0.3% in April after rising 1.2% in March and was up 8.3% year over year, down from 8.5% in March. It was the first time since last August that the rate of inflation slowed. Core inflation, which excludes the volatile food and energy categories, rose 0.6% in April after

rising 0.3% in March and was up 6.2% year over year, slightly lower than the year-over-year increase in March. The shelter index, which includes rents and homeownership costs, increased 0.5% for the second consecutive month and was up 5.1% year over year. Analysts caution that much of the surge in shelter costs, which make up the largest single component of the CPI, is still to come, since it takes about a year for rising rents and home ownership costs to show up in inflation measures. The personal consumption expenditures (PCE) price index rose 0.3% in April after jumping 0.9% in March. In the 12 months through April the PCE was up 4.9%, a drop from the 6.6% year-over-year increase in March. The decrease in the PCE was in line with economists' expectations.

Consumer Confidence Falls to 106.4

Consumer Confidence Index



- ▶ The New York-based Conference Board's Consumer Confidence Index fell to 106.4 in May after falling to an upwardly revised 108.6 in April.*
- ▶ The Present Situation Index, which is based on consumers' assessment of current business conditions, fell to 149.6 after falling to an upwardly revised 152.9 in April.
- ▶ Expectations for the next six months fell to 77.5 after rising to an upwardly revised 79.0 in April.
- ▶ 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.

Unemployment Remains at 3.6%



- ▶ The unemployment rate remained at 3.6% for the second consecutive month. Unemployment was 3.5% at the start of the pandemic in March 2020.
- ▶ The economy added 390,000 new jobs, the slowest pace of growth since last April, but above expectations and strong enough to support more rate hikes to tame inflation.
- ▶ Average hourly wages grew 0.3% in May and 5.2% year over year, compared with April's readings of 0.3% and 5.5%, respectively. Economists had expected the May gains to be 0.4% for the month and 5.2% for the year.
- ▶ The nation has recovered 21.2 million, or 96.2%, of the 22 million jobs lost early in the health crisis, leaving it 822,000 jobs short of its pre-pandemic level. The gap could be closed by summer.
- ▶ Employers posted 11.4 million openings in April, which means there were two job openings for every job seekers. A record 6 million people quit their jobs and 6.6 million people were hired, according to the Labor Department's Job Openings and Labor Turnover Survey.
- ▶ Construction added 36,000 jobs in May; 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 Rises to 60.3

The Chicago Purchasing Managers Index (Chicago PMI) rose to 60.3 in May after falling to 56.4 in April. It was the 23rd

consecutive month the index remained in positive territory. The reading was well above expectations; economists had expected the PMI to fall slightly. 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 0.5%

The Producer Price Index rose 0.5% in April after jumping an upwardly revised 1.6% in March and was up 11% year over year, a slight decline from March's record-setting increase and the first drop in year-over-year prices since the beginning of the pandemic. Core inflation, which excludes the volatile food and energy categories, climbed 0.6% in April after rising a hefty 0.9% in March and was up 6.9% from April 2021. Prices for services were unchanged in April, with big spikes in transportation and warehousing being offset by declines in prices for other services. Climbing oil prices are pushing up prices overall. Continuing CV19-related shutdowns in China and the war in Ukraine are expected to keep prices elevated.

Q1 GDP Falls 1.5%

Economic growth for the first quarter was revised to down 1.5% from the 1.4% reduction first reported, according to the second reading from the Commerce Department. The first quarter was the weakest quarter since spring 2020 when the CV19 pandemic and related shutdowns plunged the economy into a deep, albeit short, recession. The reduction was largely due to a record trade deficit and the first decline in corporate profits in five quarters. Consumer spending, the economy's main driver, was upwardly revised to a solid 3.1% from the 2.7% increase first reported, up from 2.5% growth in the fourth quarter. Businesses poured money into equipment and research, sending business spending soaring 9.2%. Disposable income fell for the fourth consecutive quarter. Over the last four quarters, the purchasing power of after-tax household incomes plunged by \$2.2 trillion (in 2021 dollars). That's a 10.9% decline, by far the largest in records dating back to 1947. Many economists are revising forecasts for the year and now anticipate growth around 2.6%.

HOUSING & CONSTRUCTION

Builder Confidence Falls to 69

Builder confidence fell eight points to 69 in April after falling to a downwardly revised 77 in March, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). It was the fifth consecutive month the HMI declined after hitting an all-time high of 90 last November. According to NAHB, building material costs are up 19% from a year ago, in less than three months mortgage rates have surged to a 12-year high and based on current affordability conditions, less than 50% of new and existing homes are affordable for a typical family. All three major indices that make up the HMI fell significantly in April. The HMI index gauging current sales conditions fell eight points to 78, sales expectations in the next six months dropped 10 points to 63 and the component charting traffic of prospective buyers fell nine points to 52. Regional scores remained mixed. Any number over 50 indicates that more builders view the component as good than view it as poor.

Building Permits Fall 3.2%

Overall permits fell 3.2% in April to 1.82 million units after rising to 1.87 million units in March. Single-family permits fell 4.6% to 1.11 million units after being essentially flat in March. Multifamily permits fell 1.0% to 709,000 annual units after rising sharply to 726,000 units in March. Single-family permits authorized but not started are up 8.5% year-over-year to 153,000 units. Regional permits were mixed year to date.

Housing Starts Fall 0.2%

Housing starts fell 0.2% in April to a seasonally adjusted annual rate of 1.72 million units after rising to a downwardly revised reading in March. **Single-family starts plunged 7.3%** to 1.10 million units after falling to 1.20 million units in March but are still up 4.1% year over year. Multifamily starts rose 15.3% to 624,000 units after rising to 593,000 units in March. Starts were up in all regions. Single-family units under construction are up 26% year-over-year to 815,000 units. NAHB says 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 pricing more first-time buyers out of the market.

New Home Sales Fall 16.6%

New home sales dropped 16.6% in April to a seasonally adjusted annual rate of 591,000 homes after falling to 763,000 homes in March. Sales were down 26.9% from April 2021. The median new home price jumped 19% year over year to \$450,600 after rising to \$436,700 in March. Strong price growth is expected to persist into 2023. A year ago, 25% of new homes sold were below \$300,000; in April that fell to just 10%. New single-family home inventory jumped to a 9 months' supply, up 40% over last year, with 444,000 available for sale. However, just 38,000 of those homes are completed and ready to occupy. Regional sales were mixed. 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 2.4%

Existing home sales fell 2.4% in April to a seasonally adjusted annual rate of 5.61 million units after falling to 5.77 million units in March, according to the National Association of Realtors. It was the third consecutive month existing home sales fell. Sales were down 5.9% from April 2021. The inventory of unsold existing homes increased to 1.03 million after rising to 900,000 homes in March. Inventory was still down more than 10% from April 2021. There was a 2.2 months' supply of homes at the current sales pace, up from 2.0 months in March. The median existing-home sales price was up 14.8% year over year to \$391,200. Year-over-year prices have risen for 121 consecutive months. Properties were on the market for an average of just 17 days in April, with homes priced under \$500,000 being snapped up in even less time. All-cash sales are still accounting for more than 25% of sales. Existing home sales fell in all regions.

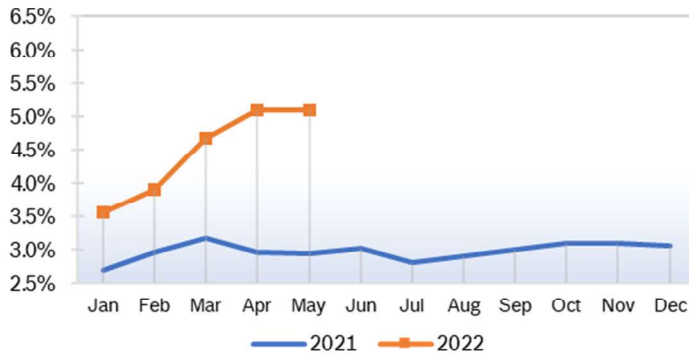
Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence	72**	80 (-2)	62 (-7)	83 (-6)
Building Permits YTD	-4.9%	3.5%	4.0%	1.3%
Housing Starts Y/Y	6.3%	13.3%	5.2%	8.3%
New Home Sales*	6.5%	-19.3%	-16.8%	-0.6%
Existing Home Sales*	-10.7%	-5.7%	-1.5%	-8.1%

* Year over Year **unchanged

Mortgage Rates Remain at 5.1%

30-Year Fixed-Rate Mortgage



- ▶ 30-year fixed-rate mortgages remained at 5.1% at the end of May. Mortgage rates were 3.0% at the end of May 2021.
- ▶ Mortgage rates rose for the first half of the month and fell over the last half, driven down by economic headwinds.
- ▶ Mortgage interest rates have jumped more than 2.0% since the start of the year.
- ▶ Mortgage rates remain historically affordable, but lean inventories have driven up prices significantly and the housing market has definitely slowed.
- ▶ Freddie Mac expects home price growth to remain firm before cooling off later this year.

POWER TOOL INDUSTRY

Robert Bosch Tool Corporation

Bosch acquired Arioso Systems, a German microelectromechanical systems (MEMS) micro speaker company. The MEMS technology combined with Bosch's MEMS sensor portfolio for wearables and hearables will allow true wireless earphone manufacturers to design products with lower power consumption and a smaller form for longer battery life and easier system integration. The global market for micro speakers is expected to grow from \$9 billion in 2020 to \$11 billion in 2026.

Stanley Black & Decker

Goldman Sachs Industrials & Materials Conference:

They anticipate revenue this year of \$20 billion, up from \$15.6 billion last year. The acquisitions of MTD and Excel will account for about \$3 billion in revenue.

Power Tools is about half of their portfolio, with outdoor power equipment accounting for about 25%. Ecommerce represents close to 20% of the Tools & Outdoor business volume and they will continue to invest in it.

CEO Don Allan stated that their POS growth rate exceeded the figures reported by major home center customers for their Tools & Outdoors categories, which indicates they are gaining share.

They're very focused on making sure that they offset the impact of inflation with price increases. They had positive price of 5% in Q4 and close to 6% in Q1. They believe Q2 will be 7% to 8% plus 10% in the back half.

They reported that all their competitors are also increasing prices or introducing new innovative products that command higher prices. They constantly monitor everyone's prices. Price increases are not across the board; it might be just 1% for some products and 10% for others.

They increased their forecast for commodity inflation by about \$600 million to a total of about \$1.4 billion, which can be attributed to many different commodities, including lithium, cobalt, nickel, resin, base metals and of course transportation costs. However, increases in commodities have leveled off over the past four weeks.

Demand has not slowed for professional power tools; homeowners are still spending money on their homes, but not as much as they spent during the pandemic lockdown stages.

They believe there will be some type of recession but there are big questions as to when and what type. It could be a European recession with just a modest slowdown in the US or a broader, stronger global recession. They currently have five or six different scenarios they could put into play depending on what type of recession they need to deal with.

For Tools & Outdoor, they feel it's important to make sure they have the right innovation and the right people, including enough feet on the street to make sure they are taking advantage of all opportunities. They expect to gain share regardless of the economy. They expect to see margin improvement in Tools in the back half.

They are watching the situation in China very closely. Their main plant in Suzhou has been open the entire time, employees go through daily PCR testing, and they have not yet had to shut down a plant. They are not at full capacity because they are getting delays from vendors that supply components and parts but so far it is not disrupting their expectations for the current quarter or the next. The Shanghai port is actually open and moving cargo in and out.

Other News:

SB&D acquired Msuite Corp., a cloud-based management software connecting BIM, FAB and Field Teams to reduce costs, increase productivity, efficiency, and safety and improve technology.

SB&D opened a new plant in Hermosillo, Mexico, that will produce power tools for construction and outdoors. There are about 84 employees now; by the end of the year there should be about 1,800 employees.

RETAIL

Retail Sales Rise 0.9%

Retail sales rose 0.9% in April and March sales were revised up from an increase of 0.9% to 1.4%. The increase in sales was broad-based. Sales at gas stations actually fell as gas prices temporarily declined. Excluding gasoline, sales rose 1.3%. Ecommerce sales rose 2.1% after falling 6.4% in March. Sales at building material stores unexpectedly fell 0.1%. 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

Q1 sales rose 3.8% to \$38.9 billion and comp sales rose

2.2% overall and 1.7% in the US.

THD raised their fiscal guidance for 2022 and now expects sales growth and comp sales growth of about 3%, with stronger comps in the first half of the year than in the back half.

Q1 Conference Call with Analysts:

CEO Ted Decker noted that the strong performance was even more impressive because Q1 2021 set records. Strong demand continued despite a slow start to spring in many parts of the country.

Eleven of 14 merchandising departments posted positive comps, including building materials. Seasonal departments saw double-digit negative comps, due mostly to the late arrival of spring.

Comp average ticket rose 11.2% and comp transactions fell 8.4%. Growth in average ticket was primarily driven by inflation across several product categories as well as demand for new and innovative products. On a two-year and three-year basis both comp average ticket and comp transactions were healthy and positive.

Inflation impacted average ticket growth by 240 basis points. For example, lumber peaked at \$1,300 per 1,000 board feet in the first quarter before falling to about \$900. Inflation is definitely higher than they anticipated. A lot of the growth in average ticket is being driven by inflation. Thus far, customers seem very resilient and are very engaged in their homes. Home prices have appreciated more than 30% in the past two years; home price appreciation has typically been the biggest driver of customers choosing to invest more in their homes.

Big ticket comp transactions, those over \$1,000, were up 12.4% compared to Q1 2021. There was big-ticket strength across many Pro-heavy categories.

Pro sales outpaced DIY sales for the quarter. Pros report strong backlogs and during the quarter many customers turned to Pros to help them with larger renovation projects.

Virtually all sales to Pros are on behalf of a homeowner, taking into account that many Pros are also homeowners.

Nearly 40% of existing occupied homes are owned outright.

Homeowner intent to do all sorts of projects, small, medium and large, has never been higher.

Demand exceeded their expectations, project backlogs are very healthy and customers tell them that their homes have never been more important.

They are focusing on building capabilities that will attract more planned purchases from Pros. They are very encouraged by early signs that the supply chain investments they made are paying off.

Sales leveraging their digital platforms rose 3.7% during the quarter, delivering the highest sales dollar volume in their history. More than 50% of online orders were fulfilled through the stores.

They are seeing an industry-wide shift from gas-powered to battery-powered mowers and have a lineup of battery-powered motors including Ryobi, DeWalt FlexVolt and Makita.

At the end of the quarter inventories were up \$6.1 billion to \$25.3 billion. The level of inventory reflects outsized demand for home improvement projects. Their in-stock position is not back to pre-pandemic levels but is the healthiest it's been since the start of the pandemic.

Customers continue to trade up for premium innovative products, a trend that's been going on for several years.

Product Walk was a highlight of their first in-person store managers meeting in three years. Vendors showcased the latest in product innovation and the level of innovation across the business is very robust. Almost 90% of the products on display at Product Walk were entirely new SKUs to THD.

They are very focused on removing friction at every touch point of the shopping experience. To that end, Matt Carey will assume the newly formed role of Executive Vice President of Customer Experience. In addition, Fahim Siddiqui was promoted to Executive Vice President and Chief Information Officer, responsible for all aspects of tech development and strategy.

Lowe's

Q1 sales fell to \$23.7 billion compared to \$24.4 billion for Q1 2021. **Comp sales fell 4%** compared to Q1 2021 but were up 19.7% on a two-year basis.

Q1 Conference Call with Analysts:

Q1 results year-over-year were disappointing but were very solid on a two-year basis.

Pro sales grew 20% in the quarter on top of 36% growth for last year. DIY sales in seasonal categories were down \$350 million for the quarter due to the slow start to spring in much of the country. DIY transactions were down in the double-digits.

There were strong positive comps in building products driven by Pro demand and supported by strong in-stock positions and a portfolio of outstanding Pro brands, including Bosch, DeWalt and Simpson Strong-Tie.

They are introducing a new fiberglass rebar from Owens Corning called PINKBAR that is stronger than traditional steel rebar and seven times lighter.

Sales at lowes.com grew 2% for the quarter and were up more than 39% on a two-year basis. They continue to expand their omnichannel capabilities and enhance the user experience.

Inventory rose \$2.6 billion from Q4 to \$20.2 billion and was up 10% from Q1 2021. Their inventory balance reflects a 13% increase from both product and commodity inflation and balances were higher due to the late spring.

It was the coldest April in 20 years and one of the wettest years as well. Roughly 75% of their sales are to DIY consumers in many seasonal categories. Spring was delayed across all regions but was particularly late in the north where sales were down double-digits in many northern markets. However, sales in many southern markets were well ahead of expectations.

They are ready to take advantage of the months ahead and are seeing improved sales trends in May. They are ready to take advantage of increased demand.

Spring Fest is their new approach to spring. It's a multi-week

event with several strategic promotions. They have not seen any trade down among either DIY or Pro customers.

They believe the housing situation today is not a bubble, but rather a reflection of a chronic lack of enough supply to meet demand. With home prices appreciating, customers feel very confident investing in their homes.

They are very focused on being competitively priced every day and monitor all their competitors very closely by category and geography. In some cases, they have to pass higher costs along to the consumer.

Private brands drive margin improvement and give customers great innovation and style at a competitive price. They are going to continue to focus on their private brands initiative.

Pro sales penetration has gone from 19% in Q1 of 2019 to 25% in 2022. They are pleased with the adoption rate for their recently launched MVP Pro Rewards and Partnership Program.

They have converted their fourth geographic area to bulk distribution centers for big and bulky products and expect to have all stores on this system by the end of 2023.

Associates can now spend 60% of their time serving customers and just 40% on manual tasking thanks to the tech enhancements they've made over the past several years. As recently as 2018, that proportion was reversed. Handheld mobile devices and new technologies have freed up time.

They are unlocking further productivity through their Perpetual Productivity Improvement (PPI) initiative. They are gaining valuable insights into their Pro customers that will allow them to expand their share of wallet with this important group.

More than 300,000 associates are now eligible to participate in more than 50 free academic programs available through Lowe's University as well as their new debt-free education program.

They expect the impact from inflation to begin to moderate in the second half.

They confirmed their full year outlook for 2022 and expect sales in the range of \$97 to \$99 billion, which would reflect

comp sales in a range of down 1% to up 1%. They expect transactions to be down and tickets to be up in the mid to high single-digits for the balance of the year which will result in relatively flat comps. Margins will be pressured because lumber prices declined several weeks earlier than expected.

Walmart

Q1 sales rose 2.4% to \$141.57 billion, beating expectations and US comp store sales rose 3%. However, profits unexpectedly dropped 25%. CEO Doug McMillon said elevated costs for everything from fuel to labor dragged down earnings. E-commerce sales rose about 1% for the quarter, a big slowdown from 8% growth in Q1 last year.

WM expects Q2 sales to rise 5% and raised their full year sales forecast to a 4% increase in constant currency from the 3% previously projected. WM also expects earnings for the year to be down 1%.

Walmart noted that some customers seem to be downgrading products, shifting to private labels and substituting less-expensive brands.

Walmart is expanding their partnership with supply chain automation company Symbotic to deploy robots in all 42 of their regional distribution centers. The two companies will retrofit the facilities over the next eight-plus years. Wilmington, Massachusetts-based Symbotic Systems is owned by Rick Cohen, who also owns grocery supply chain C&S Wholesale. The proprietary AI-driven software powers a fleet of fully autonomous robots that receive, retrieve and store items.

Ace Hardware

Ace reported record first-quarter revenues of \$2.2 billion, up 8.9% from Q1 2021 and net income of \$119.8 million, an increase of \$14.4 million from last year.

The approximately 3,500 Ace retailers who share daily retail sales data reported a 1.4% increase in U.S. retail same-store-sales during the first quarter of 2022. Estimated retail price inflation of 9.5% helped drive a 10.0% increase in average ticket. Same-store transactions were down 7.8%.

Ace Hardware earned J.D. Power's highest ranking for customer satisfaction among home improvement retail stores for

the 15th time in the past 16 years. Ace ranked in the top spot in all five categories measured in the study: Staff and Service, In-store Experience, Online Experience, Merchandise and Price. The 2022 J.D. Power U.S. Home Improvement Retailer Satisfaction Study is based on responses from more than 2,100 consumers who purchased home improvement products or services over the past 12 months. Ace ranked highest among major retailers with an overall satisfaction index score of 869 on a 1000-point scale. Lowe's (849) and Menards (849) ranked second in a tie.

Ace Hardware collaborated with the Veterans of Foreign Wars (VFW) once again this year to honor the men and women who gave their lives for our country by giving away 1 million American flags nationwide on Saturday, May 28. Consumers who visited a participating Ace store received a free 8" x 12" American flag. A second flag was donated to a local VFW Post to be used for marking and honoring veterans' graves on Memorial Day. Ace did the flag giveaway as part of their Stars and Stripes BBQ Party.

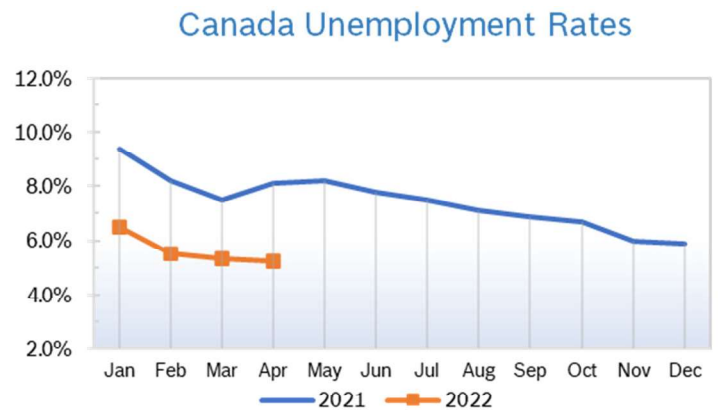
Amazon

Amazon reported their first quarterly loss since 2015, with losses of \$3.8 billion in Q1 after reporting more than \$8 billion in profits in Q1 2021. Even more surprising was the drop in online sales, the first one since Amazon began reporting this metric five years ago. Overall revenue rose by 7%, the slowest pace in nearly two decades. Amazon cited rising costs due to inflation and supply-chain congestion. After absorbing inflation for several months, Amazon hit third-party sellers with a 5% fuel and inflation surcharge. Sales for Amazon Web Services rose 37%.

Amazon is reportedly looking to sublease 10 million square feet of warehouse space as ecommerce slows. Amazon apparently has more warehouse space than they need in some of their largest markets, including New York, California, Atlanta and New Jersey. They acknowledged that during the pandemic they faced unprecedented demand and very long lead times on extending capacity and now have more space than they need.

CANADA SNAPSHOT

April Unemployment Falls to 5.2%



- ▶ The unemployment rate fell by 0.1% in April to 5.2%, the second consecutive month recording the lowest rate on record since comparable data became available in 1976. In January 2021 unemployment peaked at 9.4%.
- ▶ Employment held steady after two consecutive months of growth that totaled 409,000 jobs (+2.1%).
- ▶ Employment rose in some sectors but fell in construction and retail. The decline in retail employment followed two consecutive months of growth.
- ▶ Construction lost 21,000 jobs after four consecutive months of increases.
- ▶ The labour market has become increasingly tight over the past several months.
- ▶ With the labour market tightening, average hourly wages for employees rose 3.3% to \$31.06 after rising 3.4% in March.

Consumer Prices

The Consumer Price Index (CPI) rose 6.8% year over year in April after rising 6.7% in March, according to Statistics Canada. It was the fourth consecutive month the CPI has been over 5%; the last time the CPI was over 5% was in 1991. It was the 13th consecutive month that inflation has exceeded the Bank of Canada's (BoC) target range of 1% to 3%. Price increases were broad-based in April. Excluding the volatile food and energy categories, the core CPI was up 4.2% year over year in April

after rising an upwardly revised 3.8% in March. On a monthly basis the CPI was up 0.6% in April after being up 1.4% in March, which was the largest monthly increase since 1991. Inflation is surging for many reasons, including rising commodity prices, some of which are tied to the Russia-Ukraine war; the persistence of supply-chain disruptions, such as the recent idling of some Chinese factories because of CV19 policies; and very strong consumer demand for some products, particularly durable goods, many of which are produced overseas.

GDP Rises 0.7% in March

GDP rose 0.7% in March after rising a downwardly revised 0.9% in February. The increase was above economists' expectations. Both services-producing (+0.6%) and goods-producing (+0.9%) industries were up as 14 of 20 industrial sectors expanded in February. The construction sector expanded 1.2% in March after growing 2.7% in February as all subsectors contributed to the growth. Residential building construction (+1.8%) led the growth for the third month in a row, with home alterations and improvements and construction of single-detached homes contributing the most. All construction activities posted gains with commercial building construction contributing the most to the increase. Engineering and other construction activities increased 0.6% in March, continuing an upward trend that began at the end of 2020 but was still 1.9% below February 2020's pre-pandemic level of activity. Repair construction rose 1.2% in March 2022, up for the seventh time in eight months, as both the residential and non-residential segments expanded. Retail trade fell 0.6% in March after slipping 0.2% in February as a drop in motor vehicles offset gains in most other sectors. Excluding motor vehicle and parts dealers, retail trade rose 0.7%.

Housing and Construction News

Canadian housing starts rose 8% in April to 267,300 units after falling to 246,243 units in March, according to Canada Mortgage and Housing Corp. (CMHC). An increase in urban starts and multi-family starts was behind much of the increase. Despite concerns about rising mortgage rates and supply chain issues, the level of starts remains historically high.

Home sales fell 25.7% in April to 54,894 homes from 73,907 in April 2021, when the country set a sales record for the month, according to the Canada Real Estate Association (CREA). The national average home price was a little over \$746,000 in April,

up 7.4% from about \$695,000 during the same month last year. Excluding the Greater Toronto and Vancouver areas reduces the national average price by \$138,000.

Retail Sales Virtually Unchanged

Retail sales were virtually unchanged in March as lower sales at motor vehicle parts dealers canceled out gains in other subsectors. Retail sales were up 3.0% for the first quarter, the largest increase since the third quarter of 2020. Sales were up in 10 of 11 subsectors, representing 75.0% of retail trade, and in four provinces. Core retail sales, which exclude sales at gasoline stations and motor vehicle and parts dealers, increased 1.5%. In volume terms, retail sales were down 1.0% in March. Sales were up in four provinces but fell in British Columbia, Quebec, Saskatchewan and Newfoundland.

Retail Ecommerce Sales Fall 1.9%

On a seasonally adjusted basis, retail ecommerce sales were down 1.9% in March. On an unadjusted basis, retail ecommerce sales fell 24.6% year over year to \$3.0 billion in March, accounting for 4.9% of total retail trade. The share of ecommerce sales out of total retail sales fell 1.9% compared with March 2021 when pandemic restrictions were still in place.

Retail Notes

Canadian Tire reported strong first-quarter results, with revenue rising 15.5% to C\$3.84 billion from a year ago, exceeding analysts' expectations. Comparable sales at the Canadian Tire retail business grew 4.5%, while the Mark's banner saw comparable sales gain 17.1%. Comparable sales at SportChek stores gained 10.2%.

Canadian Tire is using the data gathered through their Triangle rewards loyalty program and credit cards to drive sales and try and counter the potential impact of rising prices. They are focused on attracting and engaging rewards members as a way to gain insight into shopping habits and shape sales through promotions. The Triangle credit card usage data gives them a lot of insight into their customers' preferences and shopping behavior. Canadian Tire retail has created a new "offer widget" function that encourages customers to use rewards to earn bonus electronic Canadian Tire money if they purchase a particular product. CEO Greg Hicks said that two years ago they would have been running 20% off sales, but tests show

that targeted customer promotions are much more effective. They are also using a “demand elasticity driver” to sweeten offers if demand flags in the face of rising inflation and other problems.

Lowe’s Canada wants to fill 500 jobs in their RONA and Reno-Depot stores for the busy summer season

Walmart is building a new state-of-the-art Walmart Canada store that will include natural refrigerant for store refrigeration, LED lighting, building materials that use recycled content and low volatile organic compound finishes. They’re implementing rain gardens in the parking area to manage water on site and revegetating to reduce the “heat island” effect. They will also be integrating many additional electric vehicle charging stations.

Walmart Canada has joined the Stingray Retail Media Network. Stingray will be responsible for exclusive sales representation, in partnership with the Walmart Connect ad platform, of all in-store digital audio advertising at all 400 Walmart Canada retail locations.

MARKET TRENDS

Is a Recession Inevitable Now?

Many forecasters are calling for a recession this year or next year and GDP contracted 1.4% on an annualized basis in the first quarter, down for the first time since early in the pandemic. But consumer spending, capital expenditures and residential investment all increased, signs that domestic demand remains solid, according to *Institutional Investor* magazine. The accepted definition of a recession is two consecutive quarters of negative growth. But the first quarter contraction was not actually broad-based enough to meet the National Bureau of Economic Research criteria for recession.

Key indicators are consistent with continuing expansion, including manufacturing and services activity, employment, housing, financial conditions and business and consumer confidence. Expansion will most likely just be at a slower pace. Economic growth remains broad-based across the country as well. The labor market remains extremely tight and jobless claims are at their lowest level since 1969. Households and businesses have accumulated savings and cash reserves. According to

Institutional Investor, when people have jobs and keep spending money it’s hard to have a recession.

Concerns about a US recession stem mainly from the Fed raising interest rates, persistently high inflation, spillover from the Russia-Ukraine war and persistent problems in global supply chains. Historically, recessions start at a median of 25 months after the beginning of a tightening cycle, although in 1963, 1994 and 2015, Fed tightening did not lead to a recession. Parts of the economy that are sensitive to interest rates, including housing and spending on durable goods, usually respond more quickly to Fed hikes. A prolonged correction in home prices could lead to a negative housing-wealth effect and deepen a recession. The war and CV19 lockdowns in China also contribute to risk. If inflation remains high, the purchasing power of consumers erodes and can lead to stagflation. *Institutional Investor* considered all factors and projects there will not be a recession this year, but risks increase in 2023 and beyond.

Prices for Residential Construction Materials and Services Climb

The prices of goods and services used in residential construction ex-energy (not seasonally adjusted) continued to climb in April, according to the most recent Producers Price Index (PPI). Building materials increased 0.5% in April, following upwardly revised increases of 1.9% and 2.4% in March and February, respectively. That means the price of building materials has risen 4.9% this year and is up 19.2% year over year. Building materials’ prices have risen 35.6% since the start of the pandemic. The PPI for softwood lumber (seasonally adjusted) declined 15.6% in April following a downwardly revised 5.4% increase in March and a 2.5% gain in February. As a result, the index is down 8.9% over the first four months of 2022. Since reaching its most recent trough in September 2021, prices have risen 60.4%. Steel mill products prices climbed 2.4% in April, the first monthly increase since December 2021. Nonetheless, the first four months of 2022 have been positive for the cost of derivative steel products, which rose 128.0% in 2021. The price index of services inputs to residential construction rose 0.9% in April. However, the index was upwardly revised for March, causing the monthly increase to jump from 3.2% to 6.8%. As a result, the price index of services used in home building (including trade services, transportation and warehousing) has climbed 13.3% since the start of the year. Year-over-year, the index has increased 18.1% and is up 45.6% since the start of the pandemic.

Inflation Threatens Back to Work

Workers once anxious to return to the office are rethinking their options as skyrocketing gas prices make commuting more expensive. Paying for lunches and trading in their pandemic-era sweats for office attire are also a factor for people who got used to commuting to the office in their spare bedroom. A Harris poll conducted for *USA Today* showed that 78% of employees were concerned about being able to afford the price of gas for their commutes, 72% were worried about the price of food and 38% were concerned about the cost of using public transportation. Millennials and parents with younger children were the most concerned, with 83% of employees with children under 18 worried about gas prices, 78% worried about paying for food and 62% worried about the costs of childcare. Office occupancy dropped to a pandemic low of 14.6% in mid-April 2020 but was up to 43.1% in mid-April 2022. About 86% of Americans drive to work, with the average commute totaling 32 miles round trip, which can add up to another \$5 a day for workers. The survey showed that the main reason people want to go to work is to see colleagues or clients in person. To make workers happy and try to retain them during this time when many companies are struggling to hire, 63% of employers are offering at least some employees a one-time bonus or overall pay hike to cope with inflation; prior to this year, most companies gave merit raises rather than cost-of-living increases. Inflation at 8% year over year amounts to a pay cut for most workers.

Brands Winning D2C Ecommerce

Established brands now account for 75.5% of the US Direct to Consumer (D2C) ecommerce market, and their sales and influence is expected to continue to grow, according to *Emarketer*. Analysts forecast that sales from established brands will grow 22.6% this year, ahead of the 17.5% sales growth expected from disruptor (digital-only) brands.

Amazon Invests in Emerging Tech

Amazon is determined to win more of the ecommerce market whether the brand is distributed through brick-and-mortar physical outlets or exists only in cyberspace. Amazon will invest \$1 billion in companies across the fulfillment, logistics and supply chain sectors in an attempt to capitalize on emerging technologies and own more of the market. The first investments of their industrial innovation fund include Agility Robotics, which makes bipedal robots for warehouses, Modjoul, which makes

wearable safety tech; Vimaan, which uses computer vision to manage inventory; BionicHIVE, an automated shelf-stacking robotics startup; and Mantis Robotics, which is developing a tactile robot arm.

Buy America Causes Controversy

New White House guidance fleshes out the Buy American provisions of the Infrastructure Investment and Jobs Act (IIJA). Associated General Contractors of America (AGC) has been strongly critical, but US steel organizations have been very supportive. The guidance issued in mid-April affects all federal infrastructure programs and federal assistance after May 14. Manufactured in America products must have at least 55% domestic content as measured by their costs. There is some wiggle room for steps that would not be in the public interest, insufficient quantities of US-sourced iron, steel, manufactured products or construction materials or if applying the provision would raise the project's overall cost by more than 25%. Waivers must be approved by the Office of Budget Management (OMB) which AGC says will create an administrative logjam of massive proportions. Steel producers are supportive because the guidance will mean more use of steel made in America.

Consumers Want to Shop In-Store

More than 85% of consumers plan to do more shopping in store this year compared to 2021. People like seeing options and choosing products in person, seeing what's new and taking advantage of the staff's expertise, according to the new Chase Design 2022 Shopper Sentiment survey, which surveyed 1,000 consumers between the ages of 25-54 who were either the primary or secondary shopper in their household. Online ordering volumes and services that boomed during the pandemic like BOPIS are slipping a bit from their 2021 highs. ChaseDesign says successful retailers will make the information consumers want available seamlessly through all channels. Shoppers cite self-checkout as the most used tech tool at physical retail, with more than two-thirds of respondents using self-checkout at least occasionally. About 44% use the retailer's shopping app and 29% use QR codes, all up from previous surveys. ChaseDesign recently worked with Walmart to redesign the checkout area to improve shopper flow and enhance grab 'n go purchases. Scan and Go is also gaining traction, with consumers using an app to scan the merchandise they are purchasing and then just walking out of the store when they're done.