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Bosch | Dremel
RotoZip | Vermont American
CST/berger | freud | Sia

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US ECONOMY

Exchange Rates April 29, 2022

Euro	1 Euro = $1.054	$1.00 = 0.95 Euros
Canadian Dollar	1 CAD = $0.781	$1.00 = 1.280 CAD
Japanese Yen	1 Yen = $0.008	$1.00 = 129.802Yen
Chinese Yuan	1 Yuan = $0.151	$1.00 = 6.609 Yuan
Mexican Peso	1 Peso = $0.049	$1.00 = 20.350 Pesos

Market Watch April 29, 2022

DOW	32,977	-3.9%
NASDAQ	12,335	-13.3%
S&P 500	4,132	-8.8%

It was another dismal month for the markets as investors grappled with strong headwinds, including monetary tightening, rising rates, persistent high inflation, the war in Ukraine and the spike in CV19 cases in China that are threatening to further disrupt the supply chain. The month was marked by big swings in both directions, but all three major indexes lost ground, with the NASDAQ posting its worst month since 2008 due to dismal results from Amazon and the S&P hitting a low point for the year.

Consumer Spending Rises 1.1%

Consumer spending rose 1.1% in March and spending in February was revised up to 0.6% from the 0.2% first reported. Spending was well above expectations. Spending on services rose 1.1% and spending on goods rose 1.2% as people dipped into savings to support spending. Personal income rose 0.5% in February with wages rising 0.8% and the savings rate fell to 6.2%, the lowest level since 2013, after climbing to 6.8% in February.

Consumer Prices Rise 1.2%

The Consumer Price Index (CPI) rose 1.2% in March after rising 0.8% in February and was up 8.5% year over year. It was the largest year-over-year increase since December 1981. Core inflation, which excludes the volatile food and energy categories, rose 0.3% in March after rising 0.5% in February and was up to a 40-year high of 6.5% year over year. However, the increase in core inflation was below economists' expectations and the smallest increase in the core rate in six months, a sign that inflation may be peaking. The overall increase was driven by energy, food and housing. The personal consumption expenditures (PCE) price index shot up 0.9% in March, the largest gain since 2005, after climbing 0.5% in February. In the 12 months through March, the PCE jumped 6.6%. It was the largest annual gain since 1982 and followed a 6.3% year-over-year increase in February. Economists expect the increase in the annual PCE price index to start slowing in the coming months as last year's large gains drop out of the calculation.

Consumer Confidence Drops Slightly

- The New York-based Conference Board's Consumer Confidence Index fell to 107.3 in April after inching up to 107.6 in March.*
- The Present Situation Index, which is based on consumers' assessment of current business conditions, fell to 152.6 after rising to an upwardly revised 153.8 in March.
- Expectations for the next six months rose to 77.2 in April after falling to 76.7 in March.
- Expectations are still weak but did not deteriorate further despite the war in Ukraine and continuing high prices.
- 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% in April. Unemployment was 3.5% at the start of the pandemic in March 2020.
- The economy added 428,000 new jobs n April, well ahead of expectations.
- The economy has added more than 6.5 million jobs during the past year and averaged 526,000 new jobs each month during the first quarter.
- Employers posted a record 11.5 million opening in March, nearly double the number of people looking for a job, according to the Labor Department's Job Openings and Labor Turnover Survey.
- In April, the largest gains were in leisure, hospitality, manufacturing and transportation and warehousing.
- The economy is now just 1.2 million jobs short of where it was in February 2020 before the onset of the pandemic.
- It was the 12th consecutive month the economy gained 400,000 or more jobs, the longest stretch of such gains on records dating back to 1939
- Average hourly earnings for all employees on private non-farm payrolls rose by 13 cents to $31.73 in March. Over the past 12 months, average hourly earnings have increased by 5.6%.
- Employment in retail increased overall but fell by 16,000 jobs in building material and garden supply stores.

* 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 56.4

The Chicago Purchasing Managers Index (Chicago PMI) fell to 56.4 in April after rising to 62.9 in March. It was the 22nd consecutive month the index remained in positive territory. The reading was below expectations; economists had expected the PMI to remain steady. The PMI is 14.4 points below the reading in April 2021. 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 1.4%

The Producer Price Index rose 1.4% in March after rising 0.8% in February and was up 11.2% year over year, the fourth consecutive record-setting monthly increase. Core inflation, which excludes the volatile food and energy categories, jumped 0.9% after rising 0.2% in February and was up 8.5% from March 2021. Energy prices accounted for about half of the increase, rising 5.7% for the month and up 36.7% from March 2020. However, prices were up across the board. The new wave of lockdowns in China and the war in Ukraine are expected to keep prices elevated.

Q1 GDP Falls 1.4%

Economic growth for the first quarter fell 1.4% after the economy grew at an annual rate of 6.9% in the fourth quarter of 2021. 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. Consumer spending, the economy's main driver, rose 2.7%, a slight acceleration from 2.5% growth in the fourth quarter. Businesses poured money into equipment and research, sending business spending soaring 9.2% The drop in GDP came from a widening trade deficit, a slower pace of business investment and fading government stimulus spending. Spending on services grew as pandemic restrictions eased and people began traveling again. However, service providers are grappling with steeply rising costs for labor and supplies. 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 the records dating back to 1947. Many economists are revising forecasts for the year and now anticipate growth around 2.6%. Over the past 75 years or 300 quarters, the annualized rate of quarterly real GDP growth has turned negative 44 times. Many negative quarters were not followed by a recession, which typically requires two negative quarters back to back.

Fed Raises Rates 0.5%

The Federal Reserve raised interest rates by half a point to a range of 0.75% to 1.00% at their meeting in early May. The Fed indicated they plan several more rate increases this year, and acknowledged that the war in Ukraine and other related events are creating additional upward pressure on inflation. Fed Chair Jerome Powell also said the Fed is not considering a 0.75% basis-point interest rate hike, which sent stock markets soaring. The Fed will also begin reducing its bond holdings. Yield on 10-year Treasury notes has been rising, which sends up mortgage rates. The Fed is trying to cool down the economy without sending it into a recession.

HOUSING & CONSTRUCTION

Builder Confidence Falls to 77

Builder confidence fell two points to 77 in April after falling to 79 in March, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). It was the fourth consecutive month the HMI has declined after hitting an all-time high of 90 last November. Sales traffic and current conditions have dropped to their lowest point since last summer as rising mortgage rates and persistent supply chain and labor problems squeeze the market. The HMI index gauging current sales conditions fell two points to 85. The index measuring sales expectations in the next six months rose three points to 73 after plunging 10 points in March. 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 0.4%

Overall permits rose 0.4% in March to 1.87 million annual units after falling to 1.86 million units in February. **Single-family permits fell 4.8%** to 1.15 million units after being essentially flat in February. Multifamily permits rose 10% to 726,000 annual units after dropping to 652,000 units in February. There are now 149,000 single-family homes that have been permitted but are not yet under construction, up 14.6% year over year as rising costs and materials shortages delay starts. Regional permits were mixed year to date.

Housing Starts Rise 0.3%

Housing starts inched up 0.3% in March to a seasonally adjusted 1.79 million units after rising sharply to 1.77 million units in February. Single-family starts fell 1.7% to 1.20 million units after rising to 1.22 million units in February. Multifamily starts rose 4.6% to 593,000 units after rising to 554,000 units in February. Regional starts were mixed. NAHB says supply chain disruptions need to be resolved so builders can increase production and contain costs. Rising costs and climbing mortgage rates are making housing less affordable and pricing more first-time buyers out of the market.

New Home Sales Fall 8.6%

New home sales dropped 8.6% in March to a seasonally adjusted annual rate of 763,000 homes after home sales for February were revised up to 835,000 homes. Sales were down 12.6% from March 2021. The median new home price jumped 21.4% from a year ago to $436,700. Strong price growth is expected to persist through this year and into 2023. There were 407,000 new homes on the market, up about 20,000 units from February. Houses under construction made up 65.5% of the inventory, with homes yet to be built accounting for about 25.8%. 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 2.7%

Existing home sales fell 2.7% in March to a seasonally adjusted annual rate of 5.77 million units after falling to 6.02 million units in February, according to the National Association of Realtors. Sales were down 4.5% from March 2021. The inventory of unsold existing homes increased to 900,000 homes after falling to an all-time low of 860,000 homes in January. There was a 2.0 months' supply of homes at the current sales pace, up from 1.7 months in February. The median existing-home sales price was up 15.0% year over year to $375,300. Year-over-year prices have risen for 120 consecutive months. Properties were on the market for an average of just 18 days in March, with homes priced under $500,000 being snapped up in even less time. Regional existing home sales were mixed.

Remodeling Index Steady

The National Association of Home Builders (NAHB)/ Westlake Royal Remodeling Market Index (RMI) held steady at 86 for the first quarter, compared Q1 2021. NAHB says the index reading shows that residential remodelers remain confident that there is demand for projects of all sizes. However, some consumers are weary of climbing prices and long delays and are postponing projects. The Current Conditions Index averaged 89, unchanged from Q1 2021.The component measuring large remodeling projects ($50,000 or more) rose four points to 89. The component measuring moderately-sized remodeling projects (at least $20,000 but less than $50,000) fell one point to 89, and the component measuring small remodeling projects (under $20,000) dropped two points to 90. The Future Indicators Index edged down two points to 82. The component measuring leads and inquiries fell six points to 80, and the backlog of remodeling jobs rose two points to 84.

Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence	72 (+2)	82 (-2)	69 (-3)	89 (-1)
Building Permits YTD	5.5%	7.5%	4.0%	4.9%
Housing Starts Y/Y	17.3%	11.2%	6.6%	7.5%
New Home Sales*	-5.4%	-10.2%	-8.7%	3.8%
Existing Home Sales*	-2.9%	-5.1%	4.5%	NC**

* Year over Year **unchanged

Mortgage Rates Rise to 5.1%

- 30-year fixed-rate mortgages (FRM) rose to 5.1% at the end of April after rising to 4.67% at the end of March. Mortgage rates were 3.0% at the end of April 2021.
- Mortgage rates ticked up all month, driven by rising inflation, geopolitical uncertainty and expected rate increases from the Fed. Rates hit their highest point since 2018.
- 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.
- Climbing prices are finally depressing demand and forcing people to stop looking in pricey coastal cities and consider more affordable suburbs and other locations.
- Freddie Mac expects home price growth to remain firm before cooling off later this year.

POWER TOOL INDUSTRY

Stanley Black & Decker

Q1 revenues rose 19.5% to $4.45 billion. Gains from a 5% boost from price and a recent acquisition were offset by a 6% decline in sales volume and a 1% decline in organic revenue amid supply-chain crunches and higher costs due to inflation.

Q1 Conference Call:

End-user demand remained stable in Tools & Outdoor, led by Pro construction. Absolute dollar sell-through at retail remains high, particularly when measured sequentially or compared to a 2019 baseline.

Tools & Outdoor revenue grew 24%, with acquisitions contributing 27% and price driving 5%, offset by a 6% decline in volume and 2% from currency. Volume was impacted by the availability of electronic components. Volume in North America was down 3%. Price realization was more than offset by inflation, higher transportation costs and lower volume. They believe volume will decline in the mid-to low single-digits in Q2 and grow 1% to 2% in the back half.

Power Tools was down 1% organically for the quarter. They expect their recent introduction of DeWalt PowerStack to contribute several hundred million dollars to growth this year. Hand tools, accessories and storage declined 1% against tough comps.

Tools & Outdoor organic growth is expected to be in the mid-to high single digits but margins are expected to be down year over year. They adjusted their expectations for volume growth by about 3% because they have a 5.5% price increase in the first quarter and will have 7.5% to 8% in the second quarter and close to 10% in Q3 and Q4. That is a lot of price over a very short timeframe.

Russia's invasion of Ukraine drove a new wave of inflation and they now expect $1.4 billion in commodity inflation compared to the $800 million they forecast in January. The key drivers reflect significant increase in battery inputs such as lithium, nickel and cobalt, up 90%, 50% and 7%, respectively, oil-related inputs such as transport and resins, up 15%, and continued price increases in other base metals and steel.

They remain focused on pricing actions to offset the cumulative impact of inflation over the past ten months and expect margins to begin to expand late this year.

They are looking at accelerating their manufacturing 4.0 automation and digitization efforts across the supply chain and have some additional expansion opportunities in the US and Mexico.

Their 2021 point-of-sale growth was above category line average for their top two home center customers.

Despite increasing interest rates, they expect repair-remodel activity to grow in mid-to high single-digit rates over the next two years, due to aging housing stock, record levels of home equity and strong price appreciation that drives big ticket remodeling. In addition, the tight supply of existing homes is leading many consumers to invest in their home rather than try to buy a new one.

Years of undersupply of new homes after the 2008 economic crisis has created a significant housing stock supply issue and millennials are entering their peak home buying years.

Commercial construction is still in the early stages of post-pandemic recovery.

Since the start of the pandemic they've added more than 1,500 people to R&D, commercial and ecommerce functions in Tools & Outdoors outside the impact of any acquisitions.

Over the long term they plan to invest 50% of their excess capital into strategic mergers and acquisitions.

They addressed reports that their investment in the Outdoor business was an investment in archaic, gas-driven technology, and stated that they will bring an outstanding and differentiated line of DeWalt brand electric products to the professional landscaping channel. The acquisition brought them a network of 2,500 unique outlets skewing toward the Pro market and representing about half of the $25 billion addressable market.

They explained why one competitor grew market share, stating it was because the competitor bought substantial quantities of batteries and semiconductors before the pandemic and built up several billion dollars' worth of inventory. The competitor's business is done FOB Asia, so they don't report revenue the same way. And because SB&D had to deal with supply constraints this competitor has been able to grow their market share faster. SB&D believes they will turn that around in the next couple of years moving forward.

They believe Outdoor will deliver an additional $4+ billion in revenue and grow 10% to 15% organically for many years to come. Regulatory actions in several states, led by California, will create pressure to convert from gasoline to electric.

They also added eight manufacturing locations through their outdoor acquisitions which will position them as the outdoor power equipment leader.

They are continuing to monitor their supply chain as it relates to China and have experienced some minor CV19-driven disruptions. Their Tier One contract manufacturers received more semiconductors in the first quarter so they will be able to increase production and delivery of Pro power tools in Q2. They expect electric component supplies to increase 20% in Q2 and further improve in Q3, which will improve fill rates and customer inventory positions.

Other News:

SB&D is providing the tools that will be used to teach construction skills to Girl Scouts of the Green and White Mountains in New Hampshire. The scouts will be building a new cabin at summer camp. The tools are part of a package of $25 million in grant funding that SB&D is awarding through their "Empower Makers" Global Impact Challenge. The girls will work with a master carpenter to frame and raise the walls, attach siding, frame windows and doors and shingle the roof with a female volunteer roofer.

SB&D released the results of their inaugural Makers Index, an in-depth research study looking at sentiment about skilled trade careers in the US, specifically among young people and their parents. The study surveyed high schoolers aged 14-19, parents of high schoolers and skilled trade workers. While 85% of young people and 94% of parents thought that skilled trade work is a good quality career option, just 49% of young people have ever considered a skilled trade career and just 16% are very likely to do so. The study concluded that much more needs to be done to make trade careers appeal to young people.

SB&D is selling its historic automatic door unit, which debuted in the Great Depression as the "Stanley Magic Door." The division, now known as Access Technologies, generated $340 million in sales last year. The all-cash $900 million sale to Ireland-based Allegion means that Stanley will now be out of the security business entirely. SB&D recently sold the Stanley Security segment to Securitas for $3.2 billion. SB&D intends to focus on their tool business.

TTI/Techtronic Industries

TTI/Techtronic Industries stock price has fallen about 40% from its peak last August and fallen 27% year to date. Analyst firm USB attributes the decline to several factors, including supply chain disruption amid China's lockdown and pressure in the US created by falling home improvement demand as the US reopened and pandemic restrictions eased. In addition, interest rate hikes in the US put stress on the housing market and equity valuation. Higher commodities prices and geopolitical uncertainty also contributed to the slide. However, USB also issued an analysts' report stating that they believed the sharp decline in stock prices was greater than warranted and maintained a BUY rating on TTI stock.

RETAIL

Retail Sales Rise 0.5%

Retail sales rose a relatively mild 0.5% in March after rising a significantly upwardly revised 0.8% in February. Gas stations posted a robust 8.9% increase in sales, but that was primarily due to rising prices. Gas is a necessity, so high gas prices leave consumers with less to spend on other goods and services. Ecommerce spending fell 6.4% in March but was up year over year. Some analysts believe dropping online sales reflect a return to in-store shopping. Core retail sales crept up 0.2% for the second consecutive month, leaving the Commerce Department to refer to them as "virtually unchanged." Core retail sales correspond most closely with the consumer spending component of GDP.

The Home Depot

CFO Richard McPhail represented THD at JPMorgan's 8th Annual Retail Roundup.

THD recently had their first in-person store managers meeting in 3 years, something they typically do every year in Las Vegas. The product walk consists of a space equivalent to several Home Depot stores where all the major vendors come and show the latest product innovations. They believe the level of innovation has never been higher and 90% of the products in the walk will be brand new for them.

Morale is high and associates are optimistic about the future because THD did very well during the pandemic and has grown by more than $40 billion in the last two years.

Their push to penetrate the planned order portion of Pro's business is progressing. Pros have traditionally used THD for convenient purchases but THD has not been able to handle flatbed jobsite delivery and was not regarded as dependable. As they are improving and building out those capabilities, they are realizing that customer wallets are much deeper than they ever anticipated. For example, one large Pro customer has grown from about $50,000 per year to more than $500,000.

Large Pros demand dependability, not just on-time delivery, as well as having the depth of product they need always in stock. THD's new flatbed distribution centers make Pros confident they can trust THD to fulfill their order.

Pricing is important and they are becoming more scientific about optimizing pricing, but they are definitely in the experimental learning phase. Labor costs are a significant component of project costs so the more time they can save Pros the better.

They don't make long-term projections because they manage their business in a very short-cycle way. They turn inventory 5x a year and staff stores and create schedules a few weeks in advance. Operating that way makes them nimble and flexible.

No one knows how inflation will ultimately impact consumer behavior but home equity and the importance of the home has never been higher. Only 5% of homes change hands each year. More than 90% of the homes bought in the last two years were financed using very long-term fixed-rate mortgages, so they don't believe rising rates will have much impact on the home improvement market. Because of rising equity, the debt to equity ratio is extremely low.

They don't do promotions; they think about events as time periods where customers are more likely to come in to the stores. They want people to count on THD to deliver the best price for any project on any given day and not wait for sales and promotions.

They believe that product innovation creates demand and delivers the best value to their customers. They also believe they need to sell projects across categories to maximize their share of wallet.

They are committed to delivering the best interconnected experience in retail and have invested heavily in improving their platforms.

They are not immune to inflation, they just believe they will be able to manage successfully in any environment. Project demand is healthy and heading into the year they took steps to be able to manage and respond to cost pressures.

Other News:

THD cut their overall workforce by 2.8% in the fiscal year that ended January 30, 2022 but increased the number of salaried employees by 19.9%. About 89% of THD's 490,600 employees are located in the US.

THD introduced an improved search platform that caters to the growing number of customers who search their website. There are now more than 400,000 unique searches every day. Their team wants to increase the number of searches that eventually turn into purchases. So in addition to building accurate, lightning-fast results, they are making their search engines smarter by creating a search platform that focuses on the intent of the person searching, not just the actual words used. This lets them account for geographic and other differences in terminology. They're also creating a personalized experience so that their online channels consider location, past searches, personalized deals and profession when populating search results. For example, an electrician who is looking for pliers will be shown electrician's pliers.

The Home Depot Foundation is teaming up with Operation Blessing in Grand Prairie, Texas, to build nearly 800 relief kits in preparation for disaster season. The kits will provide immediate resources to those affected by severe weather events. Last year the Foundation's partnership enabled Operation Blessing to provide 2,500 disaster relief kits, complete 12 long-term disaster recovery projects and respond to disasters in more than 20 cities.

Lowe's

Brandon Sink is the Lowe's new CFO. He took over from Dave Denton, who stepped down to accept a position as CFO for pharmaceutical giant Pfizer. Denton joined Lowe's in 2018 from CVS. Sink has been with Lowe's since 2010 and is currently senior vice president, retail finance.

Lowe's CEO Marvin Ellison got a $17.9 million compensation package from Lowe's last year, which was down about 23% from his 2020 package. Ellison's base salary remained $1.45 million; the rest of the compensation package was stock awards, options and other incentive payments.

Lowe's committed $9 million to eight higher-education institutions and scholarship programs to help underrepresented students and build their own talent pipeline. The initiative will provide full-tuition scholarships that will help more students reach their full potential. Lowe's is also supporting two universities who offer construction business schools.

Walmart

Walmart rolled out new Marketplace perks and incentives designed to attract more third-party brands to their online sales channels. Sellers who join Walmart Marketplace by the end of May or start selling on Walmart.com by the end of June will get a 50% discount on commission rates for their first 90 days. Walmart also extended their Walmart Fulfillment Services (WFS) introductory offer for new sellers who want to take advantage of Walmart's low-cost fulfillment option. Approved sellers who fulfill all the program requirements by the end of June will get 90 days of free storage and a 10% discount on fulfillment fees on the first 10,000 units. Walmart launched WFS in February 2020. Items sold through WFS arrive in a Walmart box and are categorized as "fulfilled by Walmart," similar to Amazon's program.

Ace Hardware

Ace Hardware will hire more than 40,000 new employees this spring for stores and distribution centers. Ace opened 182 new US stores in 2021 and saw comp store sales rise 7.5% for the year. Ace says a sharp increase in consumer demand is behind their hiring plans.

Ace customers can now get unlimited 3% Daily Cash Back when they use Apple Card with Apple Pay for purchases in the app, on the website and at store locations nationwide. Ace says they are the first home improvement store to offer these benefits.

Ace stores across the nation hosted the New at Ace Launch Party on April 23 to unveil new products from Traeger, Weber and EGO. The party featured demonstrations, deals and giveaways.

Ace Hardware stores in Virginia are partnering with Virginia 811 to offer a special sweepstakes during April, National Safe Digging Month. The Ace Your Outdoor Space Sweepstakes gives all Virginians an opportunity to win one of four $1,000 Ace Hardware gift cards. National Safe Digging Month is a reminder to contact Virginia 811 before you dig for any landscape or home-improvement project so you can avoid electric, communications, natural gas, water and sewer lines.

Amazon

Amazon's overall revenue grew 7% from the same period last year to $116.4 billion, slightly beating analyst forecasts but slower than the 9% growth in the final months of last year. The company forecast that revenue growth would slow further next quarter, anticipating a growth rate of between 3% and 7%. Analysts say that Amazon's 20-year growth spurt is definitely slowing down. Amazon noted that they will be focused on improving productivity and cost efficiencies throughout their fulfillment network. Amazon said that higher inflation, fuel prices and labor constraints added $2 billion in costs, and the huge boom in hiring necessitated by the pandemic has left them overstaffed.

Amazon Prime Day will be in July this year; Amazon has not released any further details but typically Prime Day creates a promotional event opportunity for many other retailers, who also offer in-store and online deals.

Amazon aims to deliver 1 million packages by drones by 2025. But after working on Prime Air for ten years, Amazon is still grappling with the cost structure of using drones to drop packages on customers' doorsteps within an hour of ordering. Internal projections showed that each drone delivery could cost

$63 per package compared to the current on-the-ground delivery cost estimated to be less than $5.50. Amazon has been quietly testing Prime Air deliveries in a handful of rural areas in Oregon and California for the past 18 months.

Johns Hopkins University and Amazon have teamed up on a new initiative for Interactive AI, which focuses on making interactions between humans and AI more natural through language technology and visual improvements. The initiative is focused on advancing research through fellowships to students, faculty grants where professors may work with an Amazon scientist and sponsored research projects. The amount of money Amazon is investing was not disclosed.

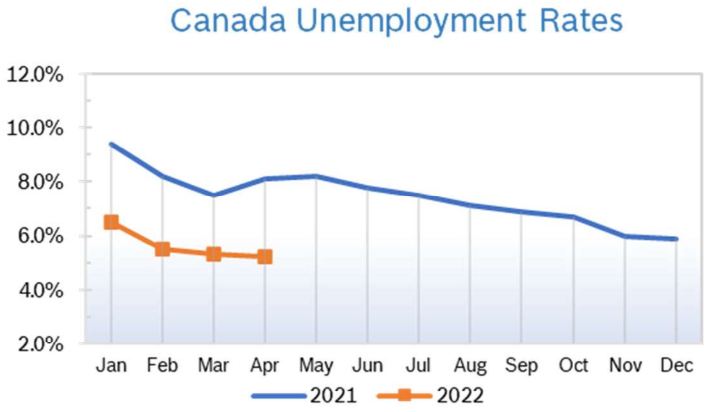
Amazon is adding a 5% surcharge to delivery fees to pass along rising fuel costs and inflation to sellers on the Amazon marketplace. The fee will be applied to US sellers only and apply to products delivered under the Fulfillment by Amazon option. Experts don't think third-party sellers will pass along costs to customers.

An Amazon warehouse in New York became Amazon's first warehouse in the US to be unionized. The Teamsters union was voted in after a two-year battle during which Amazon steadfastly maintained their workers were better off without a union, and reportedly engaged in many old-line union-busting tactics. The Staten Island warehouse that is now unionized is Amazon's largest fulfillment center in New York.

Amazon isn't planning on adding cryptocurrency to their payment options any time soon, according to CEO Andy Jassy. Jassy believes crypto will continue to become bigger over time, but noted he doesn't personally own any.

CANADA SNAPSHOT

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 Rise 6.7%

The Consumer Price Index (CPI) rose 6.7% year over year in March after rising 5.7% year over year in February, according to Statistics Canada. It was the third consecutive month the CPI has been over 5%; the last time the CPI was over 5% was in 1991. It was the 12th consecutive month that inflation has exceeded the Bank of Canada's (BoC) target range of 1% to 3%. Price increases were broad-based in March. Excluding the volatile food and energy categories, the core CPI was up 3.8% year over year in March after being up 3.5% in February. On a monthly basis the CPI was up 1.4% in March, the largest monthly increase since 1991. Some economists believe that inflation peaked in March but do not expect to see any significant easing due to the war in Ukraine and the CV19-related slowdown in China.

Bank of Canada Raises Rates 0.5%

The Bank of Canada (BoC) raised interest rates 0.5% in April after raising them 0.25% in March, bringing the rate to 1.0%. It was the bank's first rate increase greater than 0.25% in decades. Demand is still outpacing supply. The BoC forecast that the economy will grow by 4.2% this year and another 3.2% next year; it pegs capacity growth at about 2%. The situation in Canada mirrors the issues in the US. Demand bounced back much faster than anticipated and prices and inflation jumped amid efforts to meet demand while dealing with all of the supply and labour issues caused by the pandemic. Inflation is being further exacerbated by Russia's war on Ukraine and the slowdown in China.

GDP Climbs 1.1% in February

GDP rose 1.1% in February after inching up just 0.2% in January. The increase was well above economists' expectations and took GDP to a one-year high. Both services-producing (+0.9%) and goods-producing (+1.5%) industries were up as 16 of 20 industrial sectors expanded in February. The construction sector expanded 2.7% in February as all subsectors contributed to the growth. Residential building construction rose 3.7% in February, led by home alterations and improvements and construction of apartment buildings. It was the second consecutive monthly increase. Non-residential building construction increased 1.4% in February, representing its eighth consecutive gain, with alterations and improvements contributing the most to the gain. Following 3.0% growth in January, retail trade edged down 0.2% in February, as 7 of 10 subsectors decreased. Excluding motor vehicle and parts dealers, retail trade rose 0.8%.

Housing and Construction News

Canadian housing starts fell 2% in March to 246,243 units after rising to 247,256 units in February, according to Canada Mortgage and Housing Corp. (CMHC). A decline in multiunit urban starts outweighed a gain in single-family starts. Despite the decline, the level of starts still remains historically high. Supply chain issues and labour shortages continue to impact construction and have brought some developments to a standstill.

Home sales fell 16.3% in March and prices rose 11.2% compared to March 2021, according to the Canada Real Estate Association (CREA). On a seasonally adjusted basis, home sales in March were down 5.4% compared to February and the number of newly listed homes fell 5.5%. The national average home price was a record $796,068 in March, up from $715,696 in March 2021. Excluding Greater Vancouver and Greater Toronto, two of Canada's most active and expensive housing markets, drops the national average price by $163,000.

CMHC expects home sales and price growth to continue this year but fall more in line with historical averages by late 2023 or early 2024. However, price growth will remain positive, so prices will remain high. That means home ownership affordability will decline as mortgage rates rise and price growth exceeds income growth. CMHC also says housing starts will moderate from 2021 highs but remain above historical averages.

Prime minister Justin Trudeau pledged to double the current rate of new home construction over the next decade in order to help meet growing demand. In recent years Canada has averaged about 200,000 new homes annually. There are now nearly 300,000 units under construction, up from 240,000 two years ago. The goal is to stabilize the real estate market and make more affordable homes available in major cities. One of the first steps he took was banning most foreigners from making massive investments. Canada continues to face a shortage of skilled labour and low interest rates that encouraged investment. Trudeau easily won reelection the end of April so will be able to continue to push his agenda forward.

Retail Sales Rise Again

Retail sales inched up 0.1% in February to $59.9 billion after rising 3.2% to $58.9 billion in January. It was the fourth increase in sales in the past five months. Sales were up in 6 of the 11 subsectors, representing 47.2% of retail trade. Core retail sales, which exclude sales at gasoline stations and motor vehicle and parts dealers, increased 1.4%. In volume terms, retail sales were down 0.4% in February. Sales at building material and garden equipment and supplies dealers rose 5.6% after rising 10.9% in January. It was the sixth increase in this category in the past seven months. Sales were up in four provinces but fell in Newfoundland, Labrador, British Columbia and Quebec.

Retail Ecommerce Sales Fall

On a seasonally adjusted basis, retail ecommerce sales were down 4.6% in February after rising 8.3% in January. On an unadjusted basis, retail ecommerce sales declined 23.1% year over year to $2.6 billion in February, accounting for 5.3% of total retail trade. The share of ecommerce sales out of total retail sales fell 2.0% compared with February 2021, when many retailers were mandated to close their brick-and-mortar stores to in-person shopping in several regions across the country.

Retail Notes

A Teamsters group representing about 7,000 Amazon fulfillment center workers across Alberta and the Northwest Territories filed an application with the Labour Board to hold a vote for union representation. The effort is the Teamsters' second attempt at forming a union at the Amazon site in Nisku and comes on the heels of the union's first successful attempt in the US.

MARKET TRENDS

Materials Prices Won't Drop as Much as Expected

Prices for lumber, rebar, structural shapes and many more components essential to keeping construction moving along remain elevated. S&P Global Market Intelligence (GMI; formerly IHS Markit) predicts that softwood lumber will drop 14.6% this year after jumping 41.9% in 2021; that's about half the decline they projected as of the fourth quarter. Pandemic-related supply issues have subsided somewhat but weather-related problems persist. Lumber is not reaching buyers in a timely fashion, which ENR reports creates panic buying, which then leads to even higher prices. Plywood is on a similar path, with prices expected to drop 17.8% this year compared to the 30.6% drop previously expected. The Russian invasion of Ukraine will have significant impact on some sectors, with GMI predicting a 22.1% increase for rebar and a 20% jump for structural shapes.

Construction Industry Confidence Steady

ENR's Construction Industry Confidence Index remained steady in the first quarter, rising one point to 61. The index measures executive sentiment about where the market will be in the next three to six months and over a period of 12 to 18 months. Surveys were done between February 7 and March 14. The Economic Confidence portion of the index has dropped 34.3% since the second quarter of 2021. Only 19.8% of respondents thought the economy would improve in the next three to six months; 35.2% predict a decline. However, over a three-year period 42.6% see an improving economy and just 17.9% see a decline. Almost three-quarters of all respondents are three to five times more concerned about labor shortages than supplies or costs. ENR says it's primarily skilled workers who are in short supply. The skilled worker shortage is being driven by retirements, slowing immigration and more aggressive enforcement of existing laws related to undocumented workers. Russia's disruption of the global energy market does not seem to have impacted confidence yet.

Red Hot Housing Market Cooling Off

Mortgage rates have risen above 5% for the first time in more than a decade. Rates climbed from 4% to more than 5% in just five weeks as the Fed began aggressively raising rates in order to tame inflation and cool off the housing market. Demand has been exceeding supply to such an extent that in many areas homes are only on the market for a few days and go for as much as 40% over ask. Buyers are lowering their expectations, adopting more flexible attitudes about where they want to live and in what kind of home, waiving inspections and often buying sight unseen. Assuming the Fed continues to raise rates, mortgage rates, which are tied to the yield of Treasury Notes, will continue to rise as well, which means people will be able to buy less home for their money and existing homeowners who want to trade up or relocate have less of an incentive to sell. Housing analysts don't think home prices will actually drop. Rather appreciation will return to more normal levels of 3% a year compared to the 20%+ increase in property values last year. In some markets in the South, year-over-year prices are up nearly 40%.

Is the US Headed for a Recession?

Outlooks and forecasts vary widely, but forecasters agree that depends on the Fed's ability to slow down growth

without sending the economy into a tailspin. Harvard economist and former Treasury Secretary and top Obama advisor Larry Summers was the first to caution about the downside risks of the American Rescue Plan. The $1.9 trillion spending package pumped so much money into the economy it drove up the savings rate. As the worst of the pandemic waned, demand bounced back much sooner and more vigorously than expected, exacerbating supply chain problems and labor shortages. The Fed believed inflation would subside on its own but relentless demand coupled with further disruptions to the global supply chain caused by war on Ukraine have pushed consumer price inflation to levels not seen in decades. Fidelity's research team doesn't believe that a recession is imminent, but also thinks that the Fed's plans to continue to raise rates at a faster pace than usual poses a risk of a slowdown sometime in 2023. Summers puts the odds of a downturn in the next two years at about 66%. Fed Chair Jerome Powell confirmed the Fed is now focused on taming inflation and indicated that a half-point increase in interest rates was on the table for early May.

FOMO Drives Behavior

FOMO (Fear of Missing Out) has gone mainstream, with newscasters casually blaming FOMO for people's often irrational behavior as they attempt to cope with rising prices, housing shortages, retail stock turnover, supply chain issues and more. FOMO as a behavioral driver was first identified in 1996 by marketing strategist Dr. Dan Herman but the term FOMO was coined in 2004 by Harvard Business School student Patrick McGinnis, who wrote about it in the Humor section of *The Harbus (*HBS's magazine). A study in 2020 by Washington State University psychologist Chris Barry found that FOMO was triggering behavior at all levels. It's such a commonly employed tactic by scammers that the SEC recently warned consumers about investment scams that prey on people's fear of missing out on a big opportunity. Shortages, out of stocks and empty shelves trigger FOMO and cause people to buy on impulse, hoard and buy more than they need "just in case." There's a lot of FOMO going on in the housing market now as people desperate to find a new home buy properties sight unseen, waive inspections, pay cash and pay significantly over list. Rising interest rates also trigger FOMO; people want to find a home and lock in a rate they can live with before rising interest rates price them out of their dreams.

Online Retail Sales Forecast

Global ecommerce will grow significantly faster than store-based commerce, according to the annual Future of the Digital Shelf report from Edge by Ascential. The study projects that online worldwide ecommerce sales will reach $2.4 trillion in gross merchandise value (GMV, or total value of goods sold) in 2026. That would mean that ecommerce would account for nearly 40% of global retail sales by 2026 and store-based retail would fall from 69% of total sales to just 60%. In addition, from 2021 through 2026, Edge by Ascential expects ecommerce to make up 63% of all total GMV growth, outpacing every other retail channel. During the pandemic in 2020, ecommerce activity jumped by 37% worldwide. Other findings show that clients can lose 22% or more of their weekly sales for every day their product is out of stock. Search is now the preferred way to shop and the entry point for finding products and brands. For products sold online, a detail page describing the product and showing packaging are just as critical as in the physical world. Adobe recently predicted that online retail sales will surpass $1 trillion this year for the first time, with some of that big jump being fueled by inflation.

March Online Spending Grows 7%

Online spending and online prices have been rising for 22 consecutive months. Consumers spent $83.1 billion online in March, a 7% year-over-year increase from stimulus-fueled spending in March 2021, and up from $67 billion in February, according to Adobe's Digital Price Index (DPI). Fourteen of the 18 categories tracked by the DPI had price increases. Consumers paid $2.8 billion more for the same amount of goods in March, when online prices rose 3.6% year over year and 0.3% from February. Consumers received 3.1 billion out-of-stock messages in March, up from 2.8 billion in February, which had three fewer days. Adobe reported that ongoing demand despite fewer choices and more out-of-stocks is an indication that shoppers are getting more comfortable with product substitutions.

Finding a New Normal at Work

Can work provide the best of both worlds? After two years of learning how to adapt to teleconferences, zoom meetings, social distancing and dealing with the impact of CV19 and all its variants, now construction and design firms are trying to adapt to the latest challenge: safely returning employees to the office in a way that keeps some of the benefits of working remotely.

Studies show that the number of employees spending at least some time in the office doubled in the first quarter. Training, employee development, mentoring and creative collaboration were more challenging in a remote world. It turned out that for many employees, the people they worked with were a big part of what they liked about their job. But remote work offered benefits and options to people dealing with childcare, health and safety issues and other concerns that are hard to give up.

Many firms are moving to a hybrid work environment that offers some degree of in-person work for most employees while retaining some of the flexibility that kept people working during the pandemic. Companies are bringing people into the office for collaborations, team meetings, creative sessions and other activities better done in person. Some of the hybrid evolution is being driven by the tight labor market that puts employees in the driver's seat. But many companies also discovered that being flexible and accommodating to employees while making sure that team members are available when needed works better for everyone.

Many firms are offering incentives such as onsite events and other perks to people returning to the office and are willing to be more flexible about working from home and other options that are more accommodating to the needs of employees. Some senior executives have reported that conservative firms and managers who pre-pandemic would not have even considered a remote or hybrid environment were forced to change and gradually came to first accept and now embrace the new and more flexible normal.