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Shipping Supply Chain Still Clogged

Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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US ECONOMY

Exchange Rates August 31, 2022

Euro	1 Euro = \$1.006	\$1.00 = 0.993 Euros
Canadian Dollar	1 CAD = \$0.764	\$1.00 = 1.309 CAD
Japanese Yen	1 Yen = \$0.007	\$1.00 = 138.659 Yen
Chinese Yuan	1 Yuan = \$0.145	\$1.00 = 6.890 Yuan
Mexican Peso	1 Peso = \$0.050	\$1.00 = 20.088 Pesos

Market Watch August 31, 2022

DOW	31,510	-4.1%
NASDAQ	11,816	-4.6%
S&P 500	3,955	-4.2%

After racking up gains early in the month, markets tumbled during the last half, spooked by the Fed's promise of more interest rate hikes to come. It was the weakest August performance in seven years. September is typically the weakest month for the markets.

Consumer Spending Inches up 0.1%

Consumer spending rose just 0.1% in July after rising a robust 1.0% in June. The increase in spending was well below expectations. Core consumer spending rose 0.2% in July after being unchanged in June. Consumer incomes rose 0.2% in July after rising 0.6% in June, but wages shot up 0.8% after increasing 0.6% in June. Gas prices continued to fall in July and consumers spent more on services than they did on goods. The saving rate was unchanged at 5%, still the lowest rate since 2009. Families seem to be slowly drawing down their savings to cope with higher prices. Spending on goods dropped again and spending on services rose modestly.

Consumer Prices Steady

The Consumer Price Index (CPI) was unchanged in July after rising an upwardly revised 1.3% in June and was up 8.5% year over year after being up 9.1% in June. Core inflation, which excludes the volatile food and energy categories, rose 0.3% in July after rising 0.7% in June and was up 5.9% year over year

for the second consecutive month. Energy prices fell, with gasoline down 7.7% but the cost of food continued to climb, rising 1.1%. Overall the prices of goods fell 0.5% while the prices of services rose 0.3%. The PCE price index fell 0.1% in July after climbing 0.6% in June and was up 6.3% year over year. Core PCE inflation rose 0.1% in July and was up 4.6% year over year. The PCE price indexes are the Fed's favored measures for their 2% inflation target.

Consumer Confidence Rises to 103.2

Consumer Confidence Index



- ▶ The New York-based Conference Board's Consumer Confidence Index jumped to 103.2 in August after falling to a downwardly revised 95.3 in July.*
- ▶ The rebound for the Index came after three consecutive months of declines, and exceeded expectations.
- ▶ The Present Situation Index rose to 145.4 after falling to 139.7 in July.
- ▶ The Expectations Index, based on short-term outlooks for income, business and labor market conditions, jumped to 75.1 from a nine-year low of 65.6 in July. Despite the increase, this Index remains historically low.
- ▶ 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 Rises to 3.7%



- ▶ The unemployment rate rose to 3.7% in August after falling to 3.5%. Unemployment was 3.5% at the start of the pandemic in March 2020.
- ▶ The economy added a solid 315,000 new jobs* as job growth slowed from the red-hot pace of the previous months. Job growth was inline with expectations, and gains were widespread.
- ▶ Average hourly earnings climbed 0.3%, and earnings were up 4.8% year over year.
- ▶ July marked the 20th consecutive month of job growth.
- ▶ Job openings rose in July to 11.2M from an upwardly revised figure for June. Total openings equate to 6.9% of employment, still well above the 4.5% rate averaged in 2019, according to the latest Job Openings and Labor Turnover Survey, or JOLTS report.
- ▶ The ratio of job openings per unemployed worker rebounded back up to 2 jobs per every job seeker, This suggests demand for labor is weakening.
- ▶ The jobs report provided some evidence that the Fed's plan to reduce inflation without causing a recession is on the right track.

*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 51.2

The Chicago PMI fell to 51.2 in August after falling to two-year low of 52.1 in July. It was the 26th consecutive month the index has remained in positive territory. 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 Fall 0.5%

The producer price index (PPI) fell 0.5% in July after rising 1.1% in June and was up 9.8% on a yearly basis, down from a record 11.3% year-over-year increase in June. Economists surveyed were expecting a monthly jump of 0.3% and a 10.4% yearly increase. Stripping out the volatile categories of food, energy, and trade services, the PPI increased by 5.8%, down from 6.4% in June.

Q2 GDP Revised Up

GDP shrank 0.6% in the second quarter rather than the 0.9% decline first reported, according to the Commerce Department's second reading. Over the past four quarters GDP is up 1.7%. Real consumer spending was revised up to show an increase of 1.5% compared to the 1.0% gain first reported. Spending on both durable and non-durable goods fell but spending on services rose sharply. Residential investment, or housing, fell at a 16.2% annual rate in the second quarter compared to a 0.4% annualized increase in the first quarter. The drop in the second quarter subtracted 0.83 percentage points from GDP. Businesses added to inventory at an \$83.9 billion annual rate (in real terms) in the second quarter versus accumulation at a \$188.5 billion rate in the second quarter. The slower accumulation reduced second-quarter growth by a very sizable 1.83%. The personal-consumption price index (PCE) rose at a 7.1% annualized rate, matching the first quarter. From a year ago, the index is up 6.5%. However, excluding the volatile food and energy categories, the core PCE index rose at a 4.4% versus a 5.2% increase in the first quarter. It was the slowest pace of increase since the first quarter of 2021. From a year ago, the core PCE index is up 4.8 percent. While back-to-back quarters of negative GDP growth is typically considered a recession, many economists say that while the economy is slowing, strong job growth and consumer spending don't indicate a wide-spread recession.

Fed Sees More Rate Hikes Ahead

There are more rate hikes and more pain for the average American ahead, according to Fed Chairman Jerome Powell's much-anticipated speech at the Fed's annual conference in Jackson Hole. Analysts now believe the Fed will continue to

aggressively raise rates into 2023 to bring down inflation and cool the economy without pushing it into a recession. Three-quarters of analysts think the Fed will raise rates by another 0.75% at their next meeting in September, a big jump from a month ago when prices began coming down and just 25% of analysts expected another big hike. Consensus shows that most expect rates to level out at about 3.5% next year.

HOUSING & CONSTRUCTION

Builder Confidence Falls to 49

Builder confidence fell six points to 49 in August after dropping 12 points in July, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). It was the eighth consecutive month the HMI declined after hitting an all-time high of 90 last November and the first time the HMI has been below 50 since May 2020. Rising inflation, higher mortgage rates and production bottlenecks are leading to slowing traffic and shaking confidence. All three HMI components posted declines in August, with traffic of prospective buyers falling to 32, the lowest level since April 2014 with the exception of May 2020 at the beginning of the pandemic. Roughly one-in-five (19%) home builders in the HMI survey reported reducing prices in the past month to increase sales or limit cancellations. The median price reduction was 5% for those reporting using incentives. Meanwhile, 69% of builders reported higher interest rates as the reason behind falling housing demand. Scores fell in all regions. Any number over 50 indicates that more builders view the component as good than view it as poor.

Building Permits Fall 1.3%

Overall building permits fell 1.3% in July to a 1.67 million unit annualized rate after falling to 1.69 million units in June. **Single-family permits fell 4.3%** in July to 928,000 units after falling to 967,000 units in June; it was the lowest pace for single-family permits since June 2020. Multifamily permits increased 2.8% to an annualized 746,000 permits after rising to 718,000 permits in June. Regional permits were mixed year to date.

Housing Starts Fall 9.6%

Housing starts fell 9.6% in July to a seasonally adjusted annual rate of 1.45 million units after falling 2.0% to 1.56 million units in June. **Single-family starts dropped 10.1%** to 916,000

units after falling to 982,000 units in June. It was the lowest level of single-family starts since June 2020. Single-family starts are down 2.1% year to date. Multifamily starts fell 8.6% to 530,000 units after rising to 577,000 units in June. Regional starts were mixed. NAHB says higher construction costs and interest rates are leading to falling traffic for builders.

New Home Sales Fall 12.6%

New home sales fell 12.6% in July to a seasonally adjusted annual rate of 511,000 new homes from a downwardly revised reading in June. Sales were down 29.6% from July 2021. It was the lowest level of new home sales since January 2016. NAHB says that while the economy may not officially be in a recession, the housing market is. A combination of high prices and rising interest rates have sent many buyers to the sidelines and put a real damper on sales to first-time buyers. New single-family home inventory remained elevated at a 10.9 months' supply, up 81.7% over last year, with 464,000 homes available for sale. However, only 45,000 of those new homes are completed and ready to occupy. The remaining have not started construction or are currently under construction. The median sales price rose to \$439,400 in July, up 5.9% compared to June, and is up 8.2% compared to a year ago. The year-over-year gain peaked at 24.2% in August 2021. New home sales fell in all regions. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

Existing Home Sales Fall 5.9%

Existing home sales fell 5.9% in July to a seasonally adjusted annual rate of 4.81 million after falling to 5.12 million units in June, according to the National Association of Realtors. It was the sixth consecutive month existing home sales fell. Sales were down 20.2% from July 2021. The inventory of existing homes rose to 1.31 million, a 3.3-months' supply at the current sales pace, up from 3.0 months in June. The median existing home price in July fell \$10,000 from June to \$403,800, still up 10.8% from July 2021. This marks 125 consecutive months of year-over-year increases, the longest-running streak on record. The percentage of first-time buyers continues to fall. First-time buyers accounted for just 29% of sales in July; in a balanced market, they account for about 40% of sales.

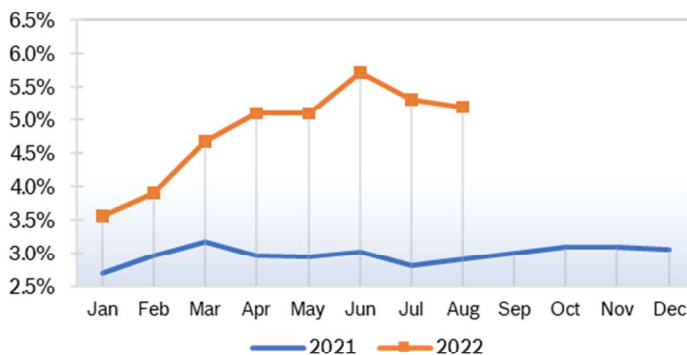
Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence	56 (-9)	63 (-7)	49 (-3)	51 (-11)
Building Permits YTD	-1.9%	2.6%	1.9%	0.2%
Housing Starts Y/Y	10.7%	6.5%	-0.4%	-2.2%
New Home Sales*	-14.9%	-13.4%	-26.5%	-9.6%
Existing Home Sales*	-7.5%	-5.3%	-3.3%	-15.7%

* Year over Year **unchanged

Mortgage Rates Inch Up

30-Year Fixed-Rate Mortgage



- ▶ 30-year fixed-rate mortgages inched up to 5.6% at the end of August after falling to 5.3% at the end of July. Mortgage rates were 2.9% at the end of August 2021.
- ▶ Mortgage rates have stayed fairly steady as purchase intent falls and people adjust to a higher rate environment. Housing analysts say rates are still very affordable and the market is normalizing.
- ▶ Mortgage interest rates have jumped more than 2% since the start of the year.
- ▶ Rising rates, lean inventories and high prices have all contributed to a slowdown in the housing market.

POWER TOOL INDUSTRY

Robert Bosch Tool Corporation

Bosch Power Tools launched a new brand advertising campaign, featuring the iconic voice of actor Nick Offerman, a long-time user and fan of Bosch tools. The “What Hard Workers Deserve” campaign focuses on the engineering of Bosch power tools in some extreme situations designed to meet the demands of construction and trades workers on the job. Offerman said, “I don’t have any fancy advertising slogans to offer here -- all I know is that I have always turned to these tools when I want to perform hard work as efficiently and accurately as possible.” Through a series of content launched across streaming TV, radio, and social media, Offerman celebrates the tough work of trades workers and illustrates how Bosch engineers their tools to be ergonomic and efficient and to support career longevity. The campaign is the result of an agency review completed in Spring 2022 and created by agency Bailey Lauerman.

Stanley Black & Decker

DeWalt recalled nearly 1.4 million saws due to injury and laceration hazards. The recall involves DeWALT 12-inch sliding compound miter saws. The miter saw’s rear safety guard can break or detach, posing an injury hazard due to projectiles that can strike the user and bystanders and a laceration hazard to the user who could come into direct contact with the saw blade, according to the Consumer Product Safety Commission. DeWalt issued the recall after nearly 600 reports of the safety guard breaking or detaching.

SB&D and Discovery Education announced the winner of the 2022 Trade Champions Challenge. A tenth grader named Samantha was the winner. The Champions Challenge asks high school students to create a 30-60 second video submission, directed at their peers, about why they aspire to be a trade professional and/or why they are passionate about the trade career in which they are currently engaged. Samantha will receive a cash prize and a Stanley Black & Decker Prize Pack. Her project, entitled “The Future of Construction,” addresses the fourth industrial revolution as related to the innovative technologies of the construction industry.

TTI/Techtronic Industries

First Half Conference Call with Analysts:

TTI organic sales grew 10% to \$7 billion for the first half of 2022. Excluding the currency impact on translation, sales grew by 12.1% in local currency. They noted that their full year revenue in 2018 was \$7 billion. TTI saw outsized growth last year of more than 50% and said that sales growth for the two-year period was 67%. For the full year they are expecting a conservative mid-single digit growth level.

The Power Equipment division revenue, which accounts for 93.3% of the group's revenue, increased by 12.8% or 14.9% in local currency to \$6.6 billion. Milwaukee, now accounting for 58% of the group's revenue, continued to be the main growth driver and grew 25.8% in local currency. The Consumer Power Tools business delivered strong results and the Outdoor business outperformed the market.

All regions delivered revenue growth. North America, accounting for 76.7% of the group's revenue, delivered a 10.5% increase with Power Equipment growing 13%.

R&D spending increased to 3.3% of sales. They remain committed to continuing to invest in innovative new products and cordless technology.

Raw material inventory grew 6 days to 20 days and finished goods inventory fell by 3 days compared to the first half of 2021. They are targeting additional reductions during the second half.

They believe they have the highest levels of shipping to major customers, including The Home Depot. Every quarter they do output interviews with every business unit, and the president level executives in these units have to cover their SKU progress plans and status, including how many SKUs they had at the start of the quarter, how many they plan to add that quarter, how many they plan to discontinue, and what's the new net total.

They have been able to stockpile critical components such as battery cells, semiconductors and some other scarce materials, and wish they had been able to add more strategic component inventory.

Milwaukee grew 26% in the first half in the US and slightly more in Canada. They do not consider themselves a US-centric business. They have grown Milwaukee 20% a year since 2010, when it was a \$600 million business. They expect global sales of more than \$8 billion this year. Milwaukee has gone from 19% of global sales to a projected 58% this year.

They will be targeting the safety equipment market with the BOLT helmet system with over 30 different bolt-on accessories that they will be manufacturing in the US.

They launched the RYOBI ONE+ line in 1996 and have now achieved a 42% household penetration in the US. Because the platform has not changed, introducing new products guarantees sales. It is also number one in Canada.

RETAIL

Retail Sales Flat

Retail sales were flat in July after rising a downwardly revised 0.8% in June and were up 10.1% year over year. Core retail sales, which exclude automobiles, gasoline, building materials and food services, rose 0.8% in July after rising 0.7% in June. The gains were led by nonstore retailers, up 2.7% for the month, followed by building materials, gardening equipment and supplies (1.5%) and miscellaneous retailers (1.5%). Online (nonstore) sales were up 20.2% from July 2021. The retail sales report covers about a third of overall consumer spending and doesn't include services, such as haircuts, hotel stays and plane tickets. Core retail sales correspond most closely with the consumer spending component of GDP.

The Home Depot

Q2 sales rose 6.5% to \$43.79 billion, well ahead of expectations, as higher prices more than offset another drop in transactions. Comp sales rose 5.8%, including 5.4% in the US. Average ticket rose 9.1% for the quarter, but the total number of transactions fell 3%, the fifth consecutive quarter transactions have fallen after the huge surge in home-improvement activity during the first year of the pandemic. However, average ticket has increased each quarter, often by more than 10% year over year.

Q2 Conference Call with Analysts:

All merchandising apartments posted positive comps.

Building materials, plumbing, millwork, paint and hardware were all above the company average.

Seasonal businesses posted positive comps in the second quarter, but underperformed expectations for the first half, driven by categories that turned in outsized gains during the pandemic. In addition, people began traveling more and doing more activities they had given up during the pandemic.

Comp average ticket increased 9% and comp transactions decreased 3.1%. The growth in comp average ticket was driven primarily by inflation across product categories, as well as demand for new and innovative products. On a three-year basis, both comp average ticket and comp transactions were healthy and positive.

Deflation from core commodity shaved 14 basis points off average ticket growth, driven primarily by lower lumber prices.

Big ticket comp transactions or those over \$1,000 were up 11.6% compared to the second quarter of last year. They saw big ticket strength across many Pro-heavy categories.

Both Pro and DIY sales growth was positive, with Pro outpacing DIY. Weakness in DIY may have been due to seasonal issues, including the fact that the important spring selling season was significantly delayed by very bad weather.

Consumers and Pros are trading up around innovation. They also have a lot of products that help Pros finish the job faster and simplify the project for consumers. They do not see any significant trade down taking place.

Pros reported they still have healthy backlogs of work, and building materials and other strong Pro categories turned in double-digit comps.

Pro sales growth and growth in Pro comp ticket has been incredibly strong and they are increasing the size of their dedicated Pro sales and service staff in many metro markets.

Much of their previous business with Pros was fill-in. Now they are seeing a big increase in what they call Pro planned

purchases, which often involve jobsite delivery. When Pros turn to them for planned purchases for a job, that results in a lot of unplanned purchases for that same project and also advanced order pickup.

Online and digital sales rose 12% to the highest sales dollar volume in company history. Sales have been boosted by enhanced search capabilities and improved Pro site experience and more robust fulfillment capabilities. More than 50% of online orders were fulfilled through stores.

They will launch Makita's new XGT 40-volt and 80-volt Max system of cordless equipment and tools in their outdoor power categories during the third quarter. The line uses one interchangeable battery and is exclusive to THD in the big box channel.

Total store count at the end of the quarter was 2,316 and selling square footage was 240 million square feet. Inventories were \$26.1 billion, up \$7.2 billion compared to the second quarter of 2021. Inventory turns were 4.5 times, down from 5.7 times last year.

Approximately half of the year-over-year increase in inventory reflects product cost inflation. Inventory also reflects deliberate investments and higher in-stock levels and stocking up for back-half events in response to continued global supply chain disruption, investment in new supply chain facilities and carryover of some spring seasonal inventory.

THD reaffirmed guidance for 2022 and expects sales growth and comp sales growth of approximately 3% for fiscal 2022. They expect comp sales to be stronger in the first half of the year than in the second half of the year.

They commented that the current environment is unique, with broad-based inflation, rising interest rates and continuing problems with the global supply chain.

They have not seen any noticeable impact from the slowdown in the housing market; consumers still have healthy balance sheets and are investing in their homes.

It is possible that some people who were contemplating moving are now planning to stay put and invest in the home they already own, rather than take on a higher-interest mort-

gage. Home price appreciation has gone up 30% to 40% in the last couple of years, which they believe translates to about \$9 trillion of increased wealth in their core customer base of homeowners.

They launched Halloween in early August and the reception has been great. Halloween is not a huge category for them from a financial point of view but it generates excitement and brings in traffic.

They do a lot of competitive pricing analysis and will stay competitive in the market. They have a deep understanding of almost all cost components for almost all of the products that they sell. They work with their suppliers whenever they see commodities drop to see what impact it will have on product costs.

When they got into the appliance business ten years ago when Sears was exiting, there was some concern about the fact that appliances have gross margins below company average. But because they don't really own the inventory the return on capital has been extremely high. They will look for more opportunities to drive market share, drive operating profit dollar growth and drive return on invested capital.

Other News:

The Home Depot joined the Billion Dollar Roundtable, (BDR), a nonprofit organization that promotes supplier diversity, excellence and best practices. The BDR is made up of US-based corporations that spend \$1 billion or more annually with minority and woman-owned suppliers. The Home Depot says they are committed to cultivating a supplier base that creates long-lasting growth and mutual business success, while reflecting the diversity of their customers and strengthening their communities. In fiscal year 2021, the company spent \$3.3 billion with diverse suppliers and put processes in place to ensure that a portion of the money that they spend on products and services across their entire supplier program makes their way to diverse businesses.

CEO and President Ted Decker will become Chairman of the Board October 1; current Chairman and former CEO Craig Menear will retire September 30.

Lowe's

Q2 sales fell slightly, to \$27.5 billion from \$27.6 billion and comp sales overall fell 0.3%, surprising analysts who had expected comp sales to increase. Comp sales in the US rose 0.2%. Lowe's blamed the overall drop in comp sales on the fact that DIY represents 75% of sales.

Lowe's forecast full-year total sales toward the bottom end of its range of \$97 billion to \$99 billion, and also expects comp sales in the lower end of prior forecasts for a 1% decline to a 1% rise.

Q2 Conference Call with Analysts:

Comparable average ticket increased 6.1% as higher Pro sales and product inflation drove higher average ticket. That was offset by comp transactions declining 6.4% after two years of what they described as "outsized growth."

Pro sales have been growing in double-digits for nine consecutive quarters, but that's not enough to make up for the drop in DIY sales because of the 75% DIY/25% Pro customer mix.

They have begun to see DIY growth shift to the interior of the store as spring seasonal products waned and DIY mentality shifted from big projects to maintenance and repairs and small improvements. They are also seeing a lot of interest in décor.

The very late spring that almost immediately transitioned to summer disproportionately impacted DIY sales. In addition, certain categories like patio and grills were impacted by unprecedented demand during the pandemic.

They are not seeing indications of trading down; to the contrary, there is continued strong demand for new and innovative products at higher price points.

Pro sales grew 13% for the quarter and 37% on a two-year basis. They're seeing good response to their Pro loyalty program, MVP's Pro Rewards, which is designed to make every Pro feel like an MVP regardless of the size of their business.

Because time is money to Pros, they are pilot testing convenient fulfillment options, including a new Pro fulfillment center in Charlotte.

They are also testing systems improvements so they can offer same-day delivery for both Pro and DIY.

Sales on Lowes.com grew 7%, representing a sales penetration of nearly 10%. They plan to continue to invest in omnichannel capabilities because they believe there is lots of room for growth.

In Canada, Q2 performance lagged the US. The Canadian business is more heavily weighted towards lumber, so it disproportionately benefited from record high lumber prices last year.

They launched several new collections, including outdoor products from EGO and DeWalt that have further strengthened their portfolio of trusted programs like Bosch, Crescent, DEWALT, Eaton, Estwing, FastenMaster, FLEX, GRK, ITW, LESCO, Little Giant, Lufkin, Mansfield, Marshalltown, Metabo, SharkBite, Simpson Strong-Tie, SPAX, Spyder and Werner.

They are pleased with their inventory position. They are able to manage seasonal as they normally would and their in-stock levels are better than they've been over the last 2.5 years.

The quality level of the inventory is good, although there are still categories across the store that they want to see improve. They are continuing to work with their vendor partners and with their supply chain teams in order to expedite products to the store shelves. The quality level of inventory this year versus last year is dramatically better.

They have introduced many initiatives under their perpetual productivity improvement program (PPI). These programs are designed to improve operational efficiency and they are seeing strong results that are improving inventory visibility and stocking and reducing nonproductive hours the associates spend searching for product while also improving the customer shopping experience in-store and online.

They are investing an incremental \$55 million in bonuses to hourly frontline associates this quarter; this cost of living bonus recognizes how important they are to Lowe's success.

For a period of time they are also providing associates with an additional 20% discount on everyday household and cleaning items to help ease the burden of inflation impacting many of these products.

They are making other investments in their associates.

They want to differentiate themselves from other retailers and earn the position of preferred retailer for employees.

They recently announced expanded scheduling options for full-time associates in order to improve their quality of life. Most full-time associates can now request a fixed four-day work week, fixed days off or even choose their preferred shift, providing them with predictability on their terms.

CEO Marvin Ellison believes that the biggest change that's been implemented since he took over four years ago is a vigorous reliance on data to drive decisions about everything from merchandise to applying a rigorously analytical process to promotions. They also track their competitors in real time because they are committed to delivering everyday value.

Walmart

Total revenue rose 8.4% to \$152.86 billion, beating analysts' average expectation of \$150.81 billion. While higher food prices drove average ticket and boosted comp sales at Walmart's US stores up 6.5%, higher discounting of general merchandise bit into profits. Walmart now expects consolidated net sales growth of about 5% for the third quarter and held to their previous forecast of 3% growth for comp sales for the remainder of the fiscal year.

Walmart will add a basic subscription to streaming service Paramount+ to the benefits of shelling out \$98 annually to belong to Walmart+. Walmart hasn't disclosed how many members have signed up, but a May survey from Morgan Stanley estimated about 16 million, up from about 15 million the previous November. While this partnership is new, Paramount and Walmart have worked together for years. Paramount has an office in Bentonville, Ark., dedicated to Walmart, which historically has been a big seller of its consumer products and home entertainment. Analysts note this move is part of Walmart's strategy to move Walmart+ closer to Amazon Prime in terms of benefits and appeal, for a lower monthly membership that also includes grocery delivery.

Walmart is reportedly exploring the launch of a platform that will use social media influencers to help them and their 100,000 third-party sellers promote their goods and services online. According to trademark filings, "Walmart Creator" and

"Walmart Creator Collective" would provide social media consulting and "the promotion of goods and services of others through influencers." Shopify and Amazon both have their own social media influencer services.

Ace Hardware

Q2 revenues rose 2.7% to \$2.5 billion, compared to an 8.2% increase for Q2 last year. The approximately 3,600 Ace retailers who share daily retail sales data reported a 0.6% increase in comp sales. Estimated retail price inflation of 11.4% helped drive a 8.0% increase in average ticket. Comp transactions were down 6.9%.

Ace added 38 new domestic stores in the second quarter of 2022 and cancelled 12 stores. Their total domestic store count was 4,816 at the end of the quarter, up 87 stores from Q2 2021.

Inventories increased \$329.7 million from Q2 last year due to the intentional build-up of inventory as a hedge against supplier shortages and to increase fill rates to Ace owners. In addition, the late arrival of spring weather in 2022 resulted in an overstock of patio and lawn and garden inventory that will be carried over into the 2023 spring selling season.

Ace Hardware recently opened their 105th new store in 2022. They expect to open at least an additional 60 more new stores by the end of the year. To keep pace with the growth, Ace plans to continue to invest in expanding their distribution network to house more inventory closer to the growing number of Ace stores and customers. They plan to add 4.4 million square feet of capacity to their distribution network by opening three new warehouses in the next five years. Ace added more than 2.5 million square feet in the past four years.

W.W. Grainger

Q2 sales rose 19.6% to \$3.8 billion. Grainger raised their guidance for profits and earnings for the full year.

Amazon

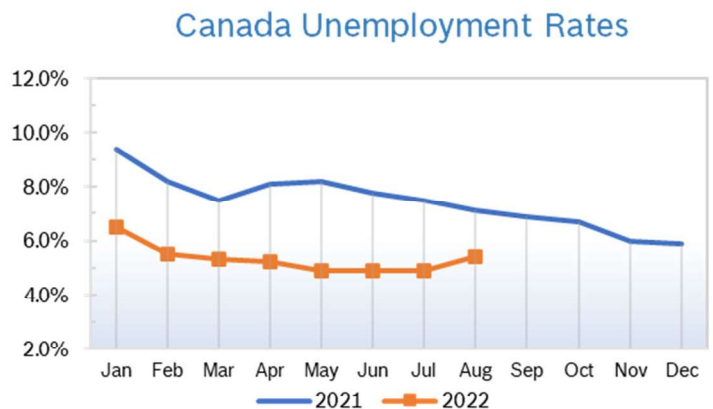
Amazon is buying vacuum cleaner maker iRobot for approximately \$1.7 billion, in an effort to add to their collection of smart home appliances and own more of the home space. iRobot sells products worldwide and is most famous for the circular Roomba vacuum, which would join voice assistant Alexa, the

Astro robot and Ring security cameras and others in the list of smart home features offered by Amazon. Amazon's Astro robot, which helps with tasks like setting an alarm, was unveiled last year at an introductory price of \$1,000 but its rollout has been limited and has received a lackluster response.

Faced with a slowdown in online shopping, Amazon has canceled, closed or delayed the opening of 49 delivery processing facilities across the US, representing more than 50.2 million square feet of warehouse space, according to logistics consultant MWPVL International. Despite the cutbacks, Amazon is moving forward with development of several new, fully automated fulfillment centers like the 4.1-million-square foot warehouse now under construction in Ontario, California, the biggest in the company's galaxy of delivery processing sites.

CANADA SNAPSHOT

Unemployment Remains Rises to 5.4%



- ▶ The unemployment rate rose to 5.4% in August after remaining at 4.9% in July. In January 2021 unemployment peaked at 9.4%.
- ▶ Employment fell by 40,000 jobs after falling by 31,000 jobs in July. The economy has lost more than 100,000 jobs over the previous three months.
- ▶ Job gains in some sectors were offset by losses in education and construction.
- ▶ The average hourly wages of employees rose 5.4% on a year-over-year basis in August.

Consumer Prices Fall Slightly

The Consumer Price Index (CPI) rose 7.6% in July after hitting an almost-record high of 8.1% year over year in June, according to Statistics Canada. On a monthly basis, the CPI rose just 0.1%, the smallest decline in many months. Much of the decline in prices was due to dropping fuel costs; other prices are still rising. Statistics Canada said that there are tentative signs that consumer price growth is close to topping out.

GDP Edges Up in June

Real GDP edged up 0.1% in June, after being essentially unchanged May. Both services-producing (+0.2%) and goods-producing (+0.1%) industries were up, as 14 of 20 industrial sectors expanded in June. Advance information would indicate GDP declined slightly in July.

The construction sector decreased 0.4% in June, down for the third month in a row, as almost all subsectors decreased, with residential and non-residential building construction contributing the most to the decline.

Residential building construction dropped 0.5%, the third consecutive monthly decline, driven primarily by a contraction in the construction of new single detached homes as well as by fewer home alterations and improvements. The level of activity in this industry is still about 8% above the February 2020 pre-pandemic level.

Non-residential building construction contracted for the second month in a row, dropping 1.0%

Repair construction dropped 0.4%, the third consecutive monthly decline for this sector, as both the residential and non-residential repair activities contracted.

Q2 GDP Rises 1.0%

Real GDP expanded 1.0% in the second quarter. It was the fourth consecutive quarterly increase in GDP. Services-producing industries increased 1.0% and were by far the largest contributors to growth. After showing significant declines or limited growth in the first quarter of 2022 due to the CV-19 Omicron variant, many services-producing industries, particularly client-facing ones, rebounded in the second quarter. Overall, goods-producing industries also rose 1.0% in the second quar-

ter, marking the third consecutive quarterly increase for this category.

Wholesale trade fell 2.0%, putting a big damper on growth in the second quarter. Wholesalers of building materials and supplies were among the largest contributors to the decline, partly due to slowing new home construction and renovation activity.

Housing and Construction News

Housing starts edged up in July, rising to 275,329 units from 273,841 units in June. The pace of single-detached urban starts dropped 2.3% to 58,384 units. The six-month moving average of the monthly seasonally adjusted annual rates was 264,426 units in July, up from 257,862 in June, according to Canada Mortgage and Housing Corporation (CMHC). The level of starts remains historically high and has been well above 200,000 units since 2020.

Home sales continued to fall in July, dropping 5.3% from June, to 37,975 homes, down 29% compared with July last year. New listings also fell. The Canadian Real Estate Association (CREA) noted that the monthly decline was the smallest in five months. New listings in July totaled 73,436, down 6% from last July and 5% from June. CREA says that sales are falling due to high prices and climbing interest rates.

The average sales price fell 3% from June and 5% from last July, according to CREA. Excluding the typically heated Greater Vancouver and Toronto Areas from the calculation cuts \$104,000 from the national average price. CREA commented that prospective buyers are moving to the sidelines because of rising interest rates and high home prices. In typically heated markets like the Greater Toronto and Greater Vancouver Areas, homes are staying on the market much longer than they normally would.

A Desjardins Group forecast predicts that home prices will fall as much as 25% by the end of this year. However, the mortgage interest cost index was up 1.7%, increasing for the first time since September 2020. Inflation has exceeded the Bank of Canada's (BoC) target range of 1% to 3% for fourteen consecutive months.

Retail Sales Rise 1.1%

Retail sales increased 1.1% in June to \$63.1 billion after rising 2.2% in May, the sixth consecutive monthly increase. Sales were up in 8 of 11 subsectors, representing 76.8% of retail trade. Sales were led by higher sales at gasoline stations and motor vehicle and parts dealers. Core retail sales, which exclude gasoline stations and motor vehicle and parts dealers, increased 0.2% in June. In volume terms, retail sales were up 0.2% in June. Sales at building material and garden equipment and supplies dealers fell 1.7%, declining for the second consecutive month.

Retail Ecommerce Sales Fall 2.9%

On a seasonally adjusted basis, retail ecommerce sales were up 4.5% in June to \$3.8 billion after falling 5.3% in May. Ecommerce sales accounted for 5.4% of total retail trade. The share of ecommerce sales out of total retail sales fell 1.0% compared with June 2021.

Retail Notes

Canadian Tire's consolidated retail sales were up 9.9% and consolidated comparable sales (excluding Petroleum) were up 5.0%, with growth benefiting from a higher mix of in-store shopping compared to the second quarter of 2021 when CV-19 restrictions remained in place. Canadian Tire Retail (CTR) comparable sales grew 3.9%. Revenue grew by 12.4% compared with last year, to \$4.4 billion in the quarter. Comp sales grew 3.9% at Canadian Tire stores. Profits fell 30% due to the costs of extricating the company from Russia and other supply chain issues.

Canadian Tire noted that the company is seeing growth in products priced above \$250, an unusual trend considering that with high inflation, shoppers frequently trade down to lower priced items to keep their budgets under control. In some cases, Canadian Tire is seeing customers trade up.

MARKET TRENDS

How a Cooling Housing Market Affects Retailers

Lowe's CEO Marvin Ellison had a lot to say about the housing market coming off red-hot levels during the company's recent earnings call.

The market dynamics that pressure the home builder are not necessarily the same market dynamics that pressure the home improvement retailer. At Lowe's, the three highest correlating factors of home improvement demand are home price appreciation, the age of the housing stock and disposable personal income. While housing turnover is important, it does not index at the same rate as home price appreciation, housing age and disposable personal income. And while housing turnover has slowed, home prices and home equity remains at record highs, which gives customers confidence that they will get a return on the investment that they make in their homes.

In addition, homes keep getting older. More than half of the homes in the US are over 40 years old and millions more built at the peak of the housing boom in the early 2000s are now starting to turn 20 years old, which is a key inflection point for big ticket repairs.

In terms of disposable personal income, household wealth is still at an all-time high. Consumer savings are roughly \$2.6 trillion higher than they were pre-pandemic. And 75% of that excess savings is concentrated in middle-income and high-income households who are more likely to be homeowners, which highlights another key benefit of the industry: the core customer is the homeowner.

In addition to having significantly more disposable income, most homeowners are benefiting from lower fixed mortgage rates. As low housing supply and high interest rates make moving less desirable, homeowners are motivated to invest in their current homes to fit their needs. This is one of the key reasons that home improvement can win in markets when housing turnover is strong and also when it slows, as was evident in the mid-1990s when home improvement spend grew despite rising interest rates and a slowdown in housing turnover.

Amazon Out to Control the Supply Chain

The pandemic caused the price of shipping containers of merchandise to soar. One company that was being quoted prices of \$25,000 or more to haul a shipping container of products from factories in China to its shoppers in the United States was quoted \$30,000 for a shipment that typically costs about \$3,000. Amazon heard about their dilemma (maybe Alexa was eavesdropping) and stepped in and offered to piggyback product on Amazon's container ships for a much lower fee.

Amazon's ocean freight service is not new, but it became more relevant as global shipping went haywire this year. Amazon has added new options to what is a relatively small service available to few merchants. It's a good example of Amazon's growing network of warehouses, package hubs, trucks, airplanes and delivery vans that demonstrates Amazon is trying to own the product cycle from factory to homes.

Amazon has the money and the heft to arm-twist ocean cargo companies so their merchants can send their products at an affordable price. The ocean freight service is one of many options that Amazon offers the millions of merchants that sell products to Amazon shoppers. For added fees, they can store their inventory in Amazon warehouses, ship their products through the Amazon delivery network and pay Amazon for more prominent online displays.

This rapidly expanding Amazon logistics machine is a superpower for the company, and figuring out transport from Asian factories is a logical next step. Amazon-watchers are wondering if they might operate their own US commercial port or ocean shipping fleet. Amazon declined to comment.

Shipping Grinch May Steal Christmas

Amazon will charge an additional fee to certain sellers during the upcoming holiday season to offset rising costs of labor and logistics. A fee of 35 cents per item will be charged on goods sold via Amazon's warehouse and logistics network in the United States and Canada from Oct. 15 through Jan. 14.

The US Postal Service will add surcharges to packages shipped between Oct. 3 and Dec. 26 to help offset higher shipping costs. Both individuals and corporations can expect to pay anywhere from an extra 25¢ to \$5, depending on the size of the package and the distance it needs to travel. The USPS rolled out surcharges last year for commercial customers.

FedEx has already announced what amounts to about a 10% surcharge on most classes of shipping for the holidays. UPS introduced a zip code based surcharge of 9% to 11% that went into effect earlier in the year and is expected to impose holiday surcharges as well. Both companies state that they have to hire more drivers and have more overtime hours during the holidays in order to meet customer expectations.

Shipping Supply Chain Still Clogged

Walmart said during their earnings call they had canceled billions of dollars in orders to help align inventory levels with expected demand. Target disclosed that they had canceled over \$1.5 billion in orders, and revealed that they had shipped in much of its back-to-school goods early. Nevertheless, US import activity keeps chugging along near all-time highs.

Despite rapid unprecedented throughput at US terminals there are still more than 130 container vessels waiting off North American ports. According to newly released numbers from Descartes, US imports totaled 2.53 million twenty-foot equivalent units (TEUs) in July. That's up 3% year over year and 15% from July 2019 prior to the pandemic; it was the fifth-highest monthly volume ever recorded by Descartes.

US imports from China rebounded in July and were up 6.9% from June and 6.3% from July 2021. The McCown Report analyzes overall volumes at the top 10 US ports and found that July imports were up 0.7% year over year. Imports at the leading East Coast and Gulf Coast ports rose 6.6% and imports at West Coast ports fell 4.9%.

With consumption levels and imports still well above pre-CV19 levels, the U.S. port system is pushing its maximum throughput; monthly import volumes might be near capacity. Descartes says that as long as monthly US container import volumes are above 2.4 million TEUs, port congestion will continue until infrastructure changes are made.

Shipping analysts say that new container terminals and even entirely new container ports will be needed to efficiently handle container volume over the ensuing decade, which will require significant infrastructure investment. Without these steps, disruption will become the norm as volume grows over time.