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US ECONOMY

Exchange Rates July 30, 2021

Euro	1 Euro = $1.186	$1.00 = 0.843 Euros
Canadian Dollar	1 CAD = $0.802	$1.00 = 1.247 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 109.713 Yen
Chinese Yuan	1 Yuan = $0.155	$1.00 = 6.461 Yuan
Mexican Peso	1 Peso = $0.050	$1.00 = 19.850 Pesos

Market Watch July 30, 2021

DOW	34,935	+1.3%
NASDAQ	14,673	+1.2%
S&P 500	4,395	+2.3%

It was a choppy and volatile month for the markets, with some big one-day declines as well as quick recoveries as markets dealt with rising cases of the Delta variant, balanced by weaker than expected GDP and strong consumer spending.

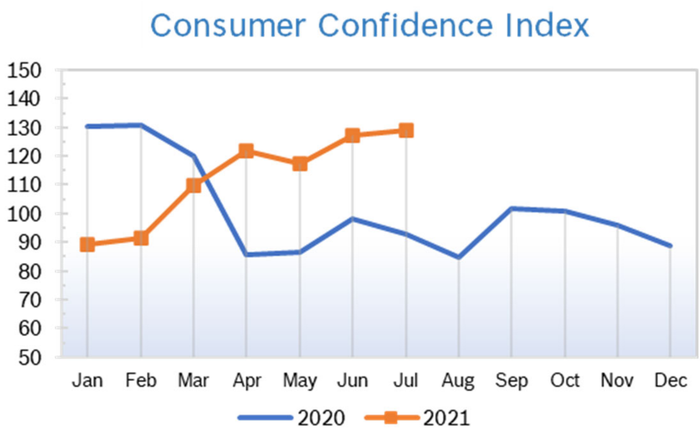
Consumer Spending Rises 1.0%

Consumer spending rose 1.0% in June after falling a downwardly revised 0.1% in May. Consumer spending grew at a robust annualized rate of 11.8% in the second quarter, accounting for much of the 6.5% growth in GDP. Personal incomes rose 0.1% in June after falling 2.0% in May and tumbling 13.1% in April. Spending increased in both goods and services in June. Going forward, analysts expect consumer spending growth to remain strong as the services sector continues to normalize.

Consumer Prices Rise 0.9%

The Consumer Price Index (CPI) rose 0.9% in June after rising 0.6% in May and was up 5.4% year over year. It was the biggest monthly increase in inflation since 2008, and far exceeded analysts' estimates. Core inflation, which excludes the volatile food and energy categories, rose 0.5% in June after rising 0.7% in May and was up 4.5% from June 2020. Consumers are seeing higher prices in many categories, particularly in categories that were depressed during the pandemic, including vehicles, rental cars, airline tickets and hotels. Shortages of supplies and labor are also driving up leisure, entertainment and restaurant prices. Personal consumption expenditures (PCE) price index excluding the volatile food and energy component rose 0.4% in June after rising 0.5% in May and was up 3.5% year over year, the largest gain since April 1992. The core PCE price index is the Fed's preferred inflation measure for its 2% target, which is now a flexible average. The Fed remains convinced inflation is transitory and is more focused on the employment situation.

Consumer Confidence Rises to 129.1



- The New York-based Conference Board's Consumer Confidence Index rose to 129.1 in July after rising to an upwardly revised 128.9 in June.*
- The Present Situation Index, which is based on consumers' assessment of current business conditions, rose to 160.3 after rising to an upwardly revised 159.6 in June.
- Expectations was virtually unchanged at 108.4 after it was upwardly revised in June.
- Consumer confidence was at the highest level since February 2020. Confidence plummeted to 86.9 at the onset of the pandemic in March 2020.

*A level of 90 indicates that the economy is on solid footing; a level of 100 or more indicates growth. Analysts caution that the real driver behind consumer spending is income growth and that labor market trends are a more accurate predictor of consumer behavior.

Unemployment Falls to 5.4%

- The unemployment rate fell to 5.4% in July after ticking up to 5.8% in June and the economy added 943,000 new jobs, well above expectations of 850,000 jobs.*
- The unemployment rate hit a pandemic-era low Job gains for April were revised down to 269,000 and gains for May were revised up to 583,000.
- Employment continued to jump in the service sector as newly vaccinated Americans travel, eat out and go to events.
- Retail added 67,000 jobs as people freshened wardrobes and ventured out to shop in the real world.
- Construction payrolls fell for the third month, dropping by 7,000 jobs, as supply chain problems delay work and create shortages.
- There are still 6.8 million more people out of work than before the pandemic in February 2020, down from 7.6 million in May.

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

Job Openings Inch Up

US job openings inched up to a new record high of 9.2 million in May and hiring fell slightly, according to the latest Job Openings and Labor Turnover Survey (JOLTS) from the US Bureau of Labor Statistics (BLS). It was the highest number of job openings on record and up substantially from the pandemic low of under 5 million jobs. Hiring dipped to 5.9 million after holding steady at 6.0 million in April. Quits fell to 3.6 million after rising to a record high of 4 million in April. The quits rate is normally viewed by policymakers and economists as a measure of job market confidence. The quits rate now accounts for more than two-thirds of all job separations and remains well above pre-pandemic levels. JOLTS is a lagging indicator, but is closely watched by the Federal Reserve and factors into decisions about interest rates and other measures.

Chicago PMI Rises to 73.4

The Chicago Purchasing Managers Index (Chicago PMI) jumped to 73.4 in July after falling to 66.1 in June. It was the 13th consecutive month the index remained in positive territory. Production jumped 8.8 points and New Orders rose 5.4 points, signaling strong demand. Prices Paid eased 0.3 points but high prices remained an area of great concern to survey respondents. 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 1.0%

The Producer Price Index rose 1.0% in June after rising 0.8% in May. The increase was above expectations and marked the sixth consecutive monthly increase in wholesale prices. Prices were up 7.3% from June 2020 after being up 6.6% year over year in May. Core inflation, which excludes the volatile food and energy categories, rose 0.5% in June after rising 0.7% for the previous three months and was up 5.5% year over year, the largest year-over-year gain since reporting began in 2014. Prices are being driven up by substantial increases in wholesale food prices and energy, both of which are stripped out of core prices. Analysts noted that year-over-year inflation numbers will consistently be higher going forward because of the year-over-year comparison to very low numbers caused by the pandemic as well as near-term pressures from supply chain bottlenecks.

Q2 GDP Grows 6.5%

GDP grew 6.5% in the second quarter, up slightly from a downwardly revised 6.3% in the second quarter, according to the first reading from the Commerce Department. While robust, the increase was well below economists' expectations of 9.1% growth. In the second quarter of 2020 GDP contracted more than 30%. Despite the lower-than-expected growth, real GDP is now 0.8% above pre-pandemic levels. However, GDP is still below where it would have been if the pandemic had not sent the economy into a downward spiral. Growth in real GDP in the second quarter was driven largely by consumer spending. Real personal consumption expenditures (PCE) shot up 11.8%, which was stronger than most analysts had expected, and every major category of spending posted solid gains. Spending on durable goods rose 9.9%, non-durable goods jumped 12.6% and services surged 12.0%. This robust growth in real PCE reflects the reopening of the economy that occurred in the second quarter and the fiscal relief measures that put money in consumers' pockets. Growth in business fixed investment spending was also generally robust with equipment spending shooting up 13.0% as businesses continue to invest in tech equipment to facilitate employees working from home. Many forecasts call for GDP to grow between 6% and 7% this year, which would be the strongest performance since a 7.2% gain in 1984 when the economy was emerging from a deep recession. The Fed's GDP forecast for this year was revised to growth between 6.5% to 7.0% in mid-June.

Fed Leaves Rates Unchanged

The Fed maintained their target fed funds rate range of between zero and 0.25% at their meeting in late July, and reassured investors they will continue to support the economy via asset purchases while the US continues to recover from the pandemic. The decision by the Fed Open Market Committee (FOMC) was unanimous. They acknowledged that while progress has been made, it has not yet been enough to warrant raising rates or tapering asset purchases. Wells Fargo expects the Fed to keep the target rate unchanged through at least the end of next year.

HOUSING & CONSTRUCTION

Builder Confidence Falls to 80

Builder confidence fell one point to 80 in July after slipping two points in June, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). The index had been above 80 for ten consecutive months. Builders are grappling with supply shortages, rising prices and long waits for materials. In addition, rising prices for materials are inflating the price of a new home, which is resulting in appraisals that are too low for consumers to qualify for the mortgage needed. That's also making it harder for builders to access construction loans. The three major HMI indices were mixed in June. The HMI index gauging current sales conditions fell one point to 86, the component measuring traffic of prospective buyers dropped six points to 65 and the gauge charting sales expectations in the next six months posted a two-point gain to 81. Regional scores were mixed for the seventh consecutive month. Any number over 50 indicates that more builders view the component as good than view it as poor.

Building Permits Fall 5.1%

Overall permits fell 5.1% in June to a 1.60 million unit annualized pace in June after falling to a 1.68 million units in May. Single-family permits dropped 6.3% in June to 1.06 million units after falling to 1.13 million units in May. Multifamily permits dropped 2.6% to an annual rate of 535,000 units after falling to 551,000 units in May. NAHB notes that permits have been falling because higher costs for materials have been pushing new home prices higher since the end of last year. Regional permits were up on a year-to-date basis.

Housing Starts Rise 6.3%

Housing starts rose 6.3% in June to a seasonally adjusted annual rate of 1.64 million units after rising to 1.57 million units in May. Single-family starts rose 6.3% in June to a seasonally adjusted annual rate of 1.16 million units after rising to 1.10 million units in May. The multifamily sector, which includes apartment buildings and condos, rose 6.2% in June to 483,000 units after rising to 474,000 units in May. Combined single-family and multifamily regional starts were up year to date compared to 2020. Single-family starts are still expected to rise this year, but at a much slower pace than they did during 2020.

New Home Sales Fall 6.6%

New home sales fell 6.6% in May to a seasonally adjusted annual rate of 676,000 homes after falling to a downwardly revised number in May. Inventory rose slightly to 353,000 new homes, but remains low at a 6.3-month supply. Nevertheless, inventory is 46.5% higher than it was in June 2020. Inventory of homes available for sale but not yet under construction was up 84% year-over-year, a clear sign of supply-side limitations in the building market. The inventory of completed homes that are ready to occupy was down 44% year over year, to just 36,000 homes. The median sales price was $361,800, up 6% from May 2020. NAHB cautioned that the big jumps in year-over-year sales is due to the big slowdown in sales during the initial stages of the pandemic. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

Existing Home Sales Rise 1.4%

Existing home sales rose 1.4% in June to a seasonally adjusted annual rate of 5.86 million homes after falling for the previous four months, according to the National Association of Realtors (NAR). Sales were up 22.9% from June 2020. The increase in sales comes as inventory levels continue to slowly climb. Total inventories rose 3.3% in June to 1.25 million and have risen month to month for four consecutive months. Housing supplies remain very low, with inventories down 18.8% over the past year. Unsold inventory sits at a 2.6-month supply; inventory has risen by a 0.1-month supply for the past two months. However, inventory is still down from 3.9 months in June 2020. The median existing single-family home price was $370,600 in June, up from $356,600 in May and up 24.4% from June 2020. It was the 112th monthly increase in year-over-year prices. Regional sales were mixed.

Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence*	75 (-4)	85**	71 (-1)	87 (-2)
Building Permits YTD	33.2%	29.6%	31.9%	32.2%
Housing Starts Y/Y	41.4%	21.5%	25.5%	28.0%
New Home Sales*	+19.4%	+15.6%	+33.5%	+4.1%
Existing Home Sales*	+2.8%	UC**	+3.9%	+1.7%

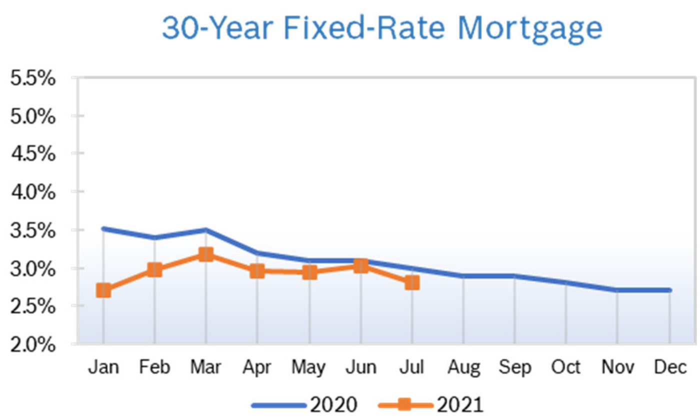
* Year over Year **unchanged

Remodeling Index Rises to 87

The Remodeling Index (RMI) rose 14 points to 87 in the second quarter, according to the National Association of Home Builders. Remodelers in many parts of the country are experiencing very strong demand and the backlog of projects in the pipeline continues to grow. The RMI asks remodelers to rate five components of the index on a scale of 0 to 100. Current Conditions rose 14 points to 91 compared to Q2 last year, Future Indicators rose 13 points to 83, Leads and Inquiries rose 9 points to 81 and the Backlog of Jobs jumped 19 points to 86.

Like builders, remodelers are dealing with material shortages and price increases; the price of OSB is up more than 500% from January 2020. The RMI was redesigned in 2020 to make it easier to respond to an interpret, so it's not possible to track quarterly trends.

Mortgage Rates Fall to 2.8%



- A 30-year fixed-rate mortgage (FRM) fell to 2.8% at the end of July after inching above 3.0% in June. Mortgage rates were 3.0% at the end of July 2020.
- Rising home prices driven by high demand, low inventory and soaring prices for lumber are limiting how competitive prospective home owners can be.
- Rates have generally been below 3.0% for the past several weeks. Fannie Mae still expects rates to rise gradually in the second half of the year.
- Analysts caution that low inventories and rising home prices are making it difficult for many potential buyers to find a home.

POWER TOOL INDUSTRY

Stanley Black & Decker

Q2 revenue rose 36.6% to $4.3 billion and organic revenue rose a record 33% overall. Tools & Storage delivered 46% revenue growth and 41% organic growth, with volume up 38%, currency up 5% and price contributing 3%.

Q2 Conference Call with Analysts:

The exceptional growth in Tools & Storage was realized across all their global markets, with North American organic growth driven by strong professional demand and innovation.

Power Tools delivered 39% organic growth, benefiting from innovative product launches across Craftsman, Stanley FatMax and DeWalt, including DeWalt Power Detect, FlexVolt Advantage, Atomic and Xtreme.

They project that the FlexVolt brand, which is now 45 products, will represent $600 million in 2021 revenue. It is a key growth driver and they will continue to innovate and put more products into the pipeline.

They continue to see growth and share gain across their brick-and-mortar and ecommerce platforms in US retail, with the channel up 22% organically in the second quarter. POS was robust and retail inventories ended the quarter below normal levels. Retailers would love to have more inventory, but they are already operating their factories at full capacity. They are adding several plants this year and working on making sure they are securing all components far enough in advance from a supply chain perspective.

They are raising their forecast for organic growth for the year to 16% to 18% from prior forecasts of 11% to 13%. The primary driver is an improved outlook for Tools & Storage. They are raising their organic growth forecast for Tools & Storage to the low 20s versus prior estimates of 14% to 16%. That will deliver mid-to-high single digit organic growth in the second half.

It was the first time all three segments delivered double-digit organic growth in the same quarter. All regions also delivered double-digit growth.

They are investing across all their businesses to capitalize on the key trends that are driving growth, including consumers reconnecting with home and garden and the robust growth of ecommerce.

They are investing more than $200 million in innovation, ecommerce, sales and marketing and other areas in order to capitalize on these trends.

They expect key market drivers across their global tools markets will continue to drive demand and support tools growth for some time to come. It is possible the expansion of the Delta variant of coronavirus may actually limit some activities in the US and other countries and stimulate DIY activity for a period of time.

They are expanding their cordless product offerings up and down the power spectrum to new users and product categories with their flexible Flexvolt Advantage and DeWalt Power Detect platforms.

Their Atomic and Xtreme platforms leverage the smallest, most power-dense brushless motor technology in the industry to deliver the highest power to weight ratio available in compact 20V and 12V platforms. They will quadruple the product offerings across those platforms in the coming years. These platforms are already helping them gain market share.

The huge surge in demand and the shift to ecommerce during the pandemic proved to be an enormous advantage for them. They grew their global ecommerce business from 13% of tool sales to 18% in just 12 months, and it is now about a $2 billion channel. They estimate their share of the tools ecommerce business to be three times greater than their closest competitor's.

They are involved in an intense battle for share with TTI/ Techtronics Industries. TTI chose an exclusive strategy in the home center channel as well as a commercial and industrial strategy built on lots of feet on the street and a serious investment in sales and marketing resources.

Comparing DeWalt and Milwaukee, they believe DeWalt is a somewhat stronger brand, but not by much. Comparing Craftsman to Ryobi, the research shows that Craftsman is a much stronger brand.

They believe the shift in ecommerce will continue and they will be "doubling down" on their investments in talent, digital capabilities and in their brands.

They will be investing heavily in revitalizing the Black & Decker brand to drive it toward more youthful buyers as an ecommerce lifestyle brand.

Cordless outdoor products also represent a major opportunity for them with the emphasis on climate change and clean energy driving opportunity. They are currently in negotiations with MTD to exercise their option to acquire the remaining 80% of the company. They believe the acquisition would provide $200 million in annual organic growth over the medium-term.

They continue to see elevated commodity prices and expect $260 million of commodity inflation in the second half instead of the $210 million originally forecast. Much of the increase is being driven by rising prices for steel. They believe they will be able to offset about half of the 2021 headwinds, partially because they've been able to implement some price increases.

Other News:

CEO Jim Loree joined the Council for Inclusive Capitalism. Launched in December 2020, the Council is a global nonprofit that joins moral and market imperative to build a more inclusive, sustainable and trusted economic system. Loree noted that SB&D believes that business has a vital role to play in building a better world and delivering sustainable value and societal good. The Council is led by CEOs and global leaders who commit their organizations to tactics that create long-term value and are accountable for their actions, which are measurable and made public on the Council's online platform.

October is dedicated to Maker Month at SB&D. As part of their Maker Month initiative, SB&D established a scholarship program to support future trades professionals. In 2020 they created "31 Faces of Makers," a series of individual profiles of tradespeople, one for each day of October. They are also partnering with Discovery Education to create resources so their employees can volunteer virtually to help students around the world with STEAM curriculum.

SB&D signed a multi-year partnership with the McLaren Formula 1 Racing Team and will become the Official Tools and Storage Partner.

RETAIL

Retail Sales Rise 0.6%

Retail sales rose 0.6% in June after falling a downwardly revised 1.7% in May. Retail sales were up 18% from June 2020 when pandemic restrictions impacted sales. The increase in sales was greater than analysts had expected. Core retail sales, which exclude automobiles, gasoline, building materials and food services, rose 1.1% after dropping 0.7% in May. Core retail sales correspond most closely with the consumer spending component of GDP. Online sales rose 1.2% month over month and were up 12% year over year. The increase came after two consecutive monthly declines. Shortages of big-ticket goods are also playing a part. The chronic shortage of both used and new vehicles continues to limit spending in this traditionally big-ticket category. Sales at building material stores fell 1.6% in June after tumbling 5.9% in May. The National Retail Federation (NRF) forecast that 2021 retail sales will rise between 6.5% and 8.2%, which would beat the previous record growth rate of 6.3% in 2004.

The Home Depot

THD is using Bluetooth to deter organized retail crime, a growing problem for retailers. They are piloting the technology on power tools at test stores in several states. The tech activates at the cash register or point of sale and allows items to work once they leave the store. A stolen item that is equipped with Bluetooth tech will not operate. The tech is applied to the item, not the packaging. They are working with partners such as Stanley, Black & Decker on the program. They are also considering tagging other items with high resale value, such as smart home merchandise.

THD has partnered with the Buy Safe America Coalition in support of the INFORM Consumers Act, which Amazon soundly opposes. This legislation would require verification of independent sellers on online marketplaces as part of an effort to stop the sale of counterfeit and stolen items. THD says they want to block criminals without alienating the vast majority of paying customers.

THD is extending their multiyear cloud services deal with Google Cloud as part of their goal to expand the array of digital tools that helped them capture and keep up with skyrocketing demand from both consumers and Pros. CIO Matt Carey said expanded tools will help them enhance existing digital services and support new ones, such as a recently launched tool that generates more accurate estimates for kitchen renovation projects. AI is also being used for voice-activated product searches, predicting inventory shortages and pinpointing products that need to be restocked. They also use models to watch weather activity and predict where products might be needed most. The shift to the cloud has helped THD handle sharp spikes in online traffic and meet customer expectations, which are now higher than ever.

Lowe's

Robert Baird Global Consumer, Technology & Services Conference:

Consumer demand has been very broad-based and they are not seeing any pullback in demand as pandemic restrictions ease and people resume more activities outside the home.

One of the pandemic trends they see continuing is consolidation. Consumers are making fewer trips and trying to accomplish more each trip.

The investments they've made in their digital channels also helps them meet growing demand for omnichannel shopping**. Customers are in the driver's seat;** they will dictate how and when they want to shop, and retailers will need to be flexible enough to meet the consumer's needs online and in-store.

Promotional activities and clearances were curtailed during the pandemic, and they don't intend to go back to their previous level of promotional activity. They want to get to more of an "every day low price" (EDLP) position.

Generally, the retailers they compete with are very rational from a pricing and promotion perspective with the exception of a few regional players. In CEO Marvin Ellison's opinion, Lowe's was doing too many promotions when he took the helm in 2018, and CMO Bill Boltz agreed they were creating a situation where customers only shopped Lowe's when there was a deal, which was not a good foundation for building the business.

They are experiencing inflation in certain categories and within the transportation and supply chains. Going into the year, they had expected input costs to begin to rise.

They have been upgrading their systems so they can rapidly adjust prices to maintain margins either by SKUs or within certain product groups.

Lowe's spends a lot of time talking to their professional customers because they have a lot of insight into future trends. Pros are very confident they will stay busy. Three years ago their installation business was losing money; now it is doing very well and gives them the ability to look at quotes and leads months out in advance.

Their Pro program is working well; existing customers are buying more and they are acquiring new Pro customers thanks to all of the programs they've put in place, including the Pro loyalty program launched in 2019 and the tool rental centers. They hope to open an additional 100 to 200 tool rental centers every year going forward. While the supply chain has been very challenging, they are in a much better in-stock position on job lot quantities for Pros than they were a couple of years ago.

One of the changes they have seen as the country recovers from the pandemic is that people have shifted more shopping activity to the week. They think people are getting out and doing more socializing and traveling now on the weekends and shifting shopping activities to free up more time.

Housing metrics remain very strong, and the shortage of new homes on the market is actually good for the maintenance, repair and remodeling markets, the vast majority of their business.

Many of the initiatives they will be putting into place over the next three years are tech driven. Technology enhancements are enabling them to pull hours out of the stores. Some of those hours saved go to the bottom line; others are invested back into service on the floor to support the sales effort.

One example of a program that saves hours is the return to vendor program, which used to be handled by every store and took 40 to 80 hours per week. Now they've consolidated that into three central consolidation centers.

The net result is that even though they have a labor reduction, they have a service improvement. It was shocking to them that 60% of labor was spent on something other than helping customers and driving sales. Now 60% of labor is on the floor serving customers.

There are parts of the country where labor is harder to come by; they give local teams the flexibility to adjust wages based on the market so they can be competitive.

The heart of their supply chain is going from a store-based delivery model to a market-based model, which means bulk distribution centers. Doing that greatly improves both service and visibility because customers can easily see where their order is at any time.

Today 60% of ecommerce fulfillment comes out of the store. They will be adding enhancements and expanding that capability. Soon they will be able to deliver ecommerce orders in two days or less to virtually every zip code in the country, and same day in some areas. Their goal is to move closer to same-day capability across the country.

Walmart

Walmart is partnering with Adobe and in early 2022 will begin offering a number of capabilities to other businesses interested in online and in-store fulfillment and pick up and delivery via a subscription model. Walmart will be offering their services to businesses seeking to develop their digital capabilities. Walmart claims utilizing their technologies will help businesses improve the customer experience and operate more efficiently.

W.W. Grainger

Q2 sales rose 13.1% to $3.2 billion with 15% organic growth. Sales were in line with expectations. Grainger maintained their guidance for the remainder of the year.

Demand for pandemic products stalled earlier than expected as vaccination rates rose and mask mandates were relaxed. That resulted in further inventory adjustments and had a negative impact on gross profit margins, according to Grainger CEO DG Macpherson. Their underlying gross profit margin has improved as customer demand has returned to a more normal mix.

In the High-Touch Solutions N.A. segment, sales were up 13.7% on a daily basis versus the prior year second quarter due primarily to a strong recovery in non-pandemic product growth.

In the Endless Assortment segment, daily sales growth was up 23.0% versus the second quarter of 2020 from strong customer acquisition in both Zoro U.S. and MonotaRO.

Amazon

Q2 sales grew 27% to $113.1 billion, below analysts' estimates of $115.3 billion, a rare miss for Amazon and well below 44% growth in Q1. Amazon Web Services (AWS) revenue rose 37% to $14.8 billion. Amazon now expects Q3 net sales of $106 to $112 billion, which would represent year-over-year growth of 10% to 16%.

Amazon CEO Jeff Bezos stepped down July 5 as he announced he would do back in February. Andy Jassy, who had been leading Amazon Web Services, took over as CEO. Bezos will still have an active role in the company he started in his garage in 1995. In his new role as executive chair he will focus on new products and initiatives while Jassy focuses on running what is now a $1.7 trillion company. Among his many challenges will be dealing with growing calls for tighter regulations on tech giants and new rules that would make it harder for them to acquire companies.

Best-selling categories for Amazon Prime Days included tools, beauty, nutrition, baby care, electronics including Amazon devices, apparel and household products. Research from tech market research company Numerator studied more than 30,000 Prime Day orders. Numerator also noted that average spend per order dropped 18% to $44.5 from Prime Day 2020, and average household spend was roughly $106.41, because more than half of all households placed more than one order. Adobe Analytics reported that Prime Days generated a reported $11 billion in sales across all online retailers, up 6.1% from 2020. About 75% of shoppers reported shopping only at Amazon for Prime Days; 21% said they also made purchases from another online retailer.

Amazon will be putting more research and development support behind Scout, their autonomous delivery robot that was tested last year in Georgia and Tennessee. Scout will now get its own development center in Helsinki, with more than 20 engineers working on the robot. They are focused on developing 3D software to simulate the complexity of real life and make sure Scout will be able to safely navigate around obstacles while making deliveries.

Amazon plans to hire more than 100,000 US veterans and military spouses by 2024. Amazon currently employs more than 40,000 veterans and military spouses across multiple businesses who all receive a starting wage of at least $15 per hour and have access to Amazon's comprehensive benefits. Amazon also offers a variety of programs to assist transitioning service members and spouses, including access to company-funded skills training in high-demand areas such as cloud computing. They also have access to fellowships, mentorships, military spouse support and deployment benefits.

The Pentagon announced that it canceled a disputed cloud computing contract with Microsoft and will instead pursue a deal with both Microsoft and Amazon, as well as other potential providers. The Pentagon stated that the long-delayed JEDI Cloud contract no longer met their requirements in this rapidly evolving and changing field. There was no mention made of the Amazon lawsuit filed in October 2019, immediately after Microsoft was awarded what could have eventually become a $10 billion business.

CANADA SNAPSHOT

Unemployment Falls to 7.5%

- The unemployment rate fell to 7.5% in July after falling to 7.8% in June after peaking at 9.4% in January.
- Employment rose 0.5% in July, or 94,000 jobs after increasing by 231,000 jobs in June.
- Prior to the pandemic, the unemployment rate reached a historic low of 5.4% in May 2019, and was 5.7% in February 2020.
- Many jurisdictions substantially eased pandemic restrictions affecting indoor and outdoor dining, recreational activities, retail shopping and other services.
- The two consecutive months of growth brought employment to just 1.3% below pre-pandemic levels, or 246,000 jobs.
- Almost all the gains were in full-time employment in the services sector.
- The share of Canadians working from home fell to its lowest level since October 2020 to 25.8%.

Consumer Prices Rise 0.3%

The Consumer Price Index (CPI) rose 0.3% in June after rising 0.5% in May and was up 3.1% year over year after being up 3.6% year over year in May, according to Statistics Canada. Prices rose at a slower pace in four of the eight major components on a year-over-year basis. Shelter prices rose 4.4% year over year in June, the largest yearly increase since September 2008. Prices for new homes continue to be impacted by shifting consumer preferences as well as higher building costs compared with June 2020. Gasoline prices continued to rise, but at a slower pace, and were up 10.5% from June 2020. The BoC had earlier projected that inflation would rise to about 3% because of the disparate comparisons to 2020, but should return to close to the bank's target of 2% by the end of the year. Statistics Canada is attempting to balance the impact of the pandemic by removing items that were not available in March from the year-over-year comparisons.

GDP Falls 0.3% in April

Real GDP contracted 0.3% in April after 11 consecutive monthly increases. With the first decline in 12 months, total economic activity remained at about 1% below its level before the pandemic began affecting economic activity in February 2020.

Overall, 12 of 20 industrial sectors were down as gains in goods-producing industries (+0.5%) were more than offset by contractions in services-producing industries (-0.6%).

Preliminary information indicates a 0.3% decrease in real GDP in May. The retail trade, construction and real estate rental and leasing sectors contributed the most to the declines.

Retail trade retreated 5.5% in April, dampening the previous two monthly expansions, as 10 of 12 subsectors were down.

The construction sector rose 2.4% in April, up for a fifth consecutive month, as all components increased. Residential building construction rose 4.1%, leading the expansion with a fifth consecutive monthly increase. Continued growth in single-family homes and multi-unit dwellings construction more than offset lower activity in home improvements and renovations.

Repair construction increased 0.6%, while engineering and other construction activities grew 1.6%. Non-residential building construction rose 1.1%.

Interest Rates Steady

The BoC left its key interest rate on hold at 0.25% at their meeting in mid-July but said they would cut their weekly net purchases of government bonds from C$3 billion to C$2 billion. The BoC said they remain committed to keeping the interest rate unchanged until economic slack is absorbed, most likely sometime in the second half of 2022. The benchmark interest rate has been at 0.25% for more than a year.

Housing and Construction News

Canada housing starts fell 1.5% in June to a seasonally adjusted annual rate of 282,070 units after rising to 279,000 units in May, according to Canada Mortgage and Housing Corp. (CMHC). The annual pace of urban starts fell 1.8% in June to 251,190. Starts of single-detached urban homes fell 8.5% to 60,105. CMHC estimated rural starts at a seasonally adjusted annual rate of 30,880 units. The six-month moving average of the monthly seasonally adjusted annual rate of housing starts was 293,567 in June, up from 284,837 in May.

Home sales fell 8.4% in June after falling 7.4% in May and 12.5% in April, according to the Canadian Real Estate Association (CREA). CREA noted that three consecutive months of dropping sales is an indication of continuing fatigue and frustration among buyers dealing with sky-high prices and a shortage of homes. Sales were down in 80% of all local markets. The national average selling price actually dropped to $679,000 from $696,000 in May, but is still up 25.9% from June 2020.

Retail Sales Drop 2.1%

Retail sales fell 2.1% in May to $53.8 billion after rising to $58 billion in April. Sales decreased in 8 of 11 subsectors, representing 65.6% of retail trade, and also fell in eight provinces. Core retail sales, which exclude gasoline stations and motor vehicle and parts dealers, decreased 2.4%. In volume terms, retail sales decreased 2.7% in May. Retail sales fell primarily due to restrictions put back in place in response to a third wave of CV19 cases. Sales at building material and garden equipment and supplies dealers dropped 11.3% in May after dropping 10.4% in April. The two consecutive monthly declines in retail sales follows record sales of hardware, tools, renovation and lawn and garden products in March.

Retail Ecommerce Sales Climb

On a seasonally adjusted basis, retail ecommerce sales rose 2.1% in May. On an unadjusted basis, retail ecommerce sales were up 3.7% year over year to $4.2 billion in May, accounting for 7.0% of total retail trade. The share of ecommerce sales out of total retail sales was unchanged in May compared with April.

Retail Notes

Amazon formally canceled Prime Day in Canada this year due to the impact of CV19 on Canadian operations. Amazon partially closed three Canadian distribution centers in Ontario in May after multiple employees tested positive. Amazon had previously postponed the event.

MARKET TRENDS

Residential Construction Leads the Recovery

According to Dodge Data & Analytics, residential construction is up 19% so far this year, with both single-family and multifamily construction strong. Industry analysts don't expect either the residential construction sector or the housing sector overall to slow down significantly. The urgency around demand that helped drive up prices is waning and buyers are starting to say no to prices that are significantly higher than the norm. The lumber bubble has begun to burst, according to IHSMarkit. Dodge predicts a 70.2% overall hike in softwood lumber for 2021 followed by a 34.8% drop in 2022. Plywood prices will rise 39.8% this year, but will drop 28.4% in 2022. Rebar prices are expected to be up 30.9% this year, as are prices for steel structural shapes. In the US price increases are due to supply chain issues and increases in the prices of scrap. Longer lead times have made imports much less attractive. Both rebar and structural shapes prices are expected to drop between 15% and 17.4% in 2022.

Renovate or Move?

More than half (52%) of US homeowners are considering renovations as an alternative to buying a new home, and more than seven in 10 homeowners are already planning or considering a home renovation project in the next six months, according to a new survey from DeWalt. According to the survey, most homeowners (84%) are planning on or considering using a professional contractor. However, more than half of the homeowners who had contacted a professional reported waits of at least three months before work could get underway.

The most common renovation projects included remodeling bathrooms (42%), kitchens (40%) and bedrooms (28%). Contractors are needed most for electrical work, flooring, plumbing, windows and structural work.

What's important when selecting a contractor? Price led the list at 62%, followed by being licensed (52%) and behaving professionally (49%). A majority of homeowners (53%) relied on word of mouth to find their contractor; 40% used online search tools.

According to the survey, 78% of homeowners appreciate the skills of a professional home contractor more than they did 18 months ago.

Buy a Home Online

People looking for a new home embraced virtual home tours as a way to shop around without going out in the world. As the pandemic dragged on, people adapted to buying a wide range of products online, including big-ticket purchases such as cars. Now some home builders are taking that concept even further. Two big home builders, Pulte Group and Taylor Morrison Home, recently piloted programs that allow people to choose, design and finance a new home online and just put the whole thing into their shopping cart when they're done. The builders thought they were just testing the concept; the overwhelming positive response really surprised them. In just six weeks, Taylor Morrison saw more than 1,500 shopping cart entries with a 60% conversion rate, which is ten times what they would normally expect from an in-person browser. CBS *Sunday Morning* interviewed one of the customers who bought a new home online who said she couldn't be happier and wouldn't change a thing.

Inflation and Interest Rates

The period of higher inflation we have seen of late may last longer than originally anticipated and interest rates may need to start rising as early as late next year, according to Fed officials. At the end of 2020 a dozen Fed policymakers felt that the record-low interest rates put into place to help deal with the pandemic crisis would need to remain in place into 2024. What's changed? Vaccinations have proceeded at a much stronger pace than originally forecast and the reopening of the economy has proceeded more rapidly than expected, which has driven up demand and inflation. Prices for goods such as lumber and used cars have pushed some measures of inflation to multiyear highs. The Fed also noted that another three or four months of job gains should be enough progress for them to consider pulling back on the bond purchases that have been going on since the pandemic struck. A slowdown in bond purchases would be an early indicator of an eventual increase in rates. However, economists are quick to point out that a return to the double-digit inflation of the 1970s and 80s is highly unlikely. Most of the current spikes in inflation are being driven by transitory factors such as temporary supply shortage and bottlenecks. Nevertheless, it is likely that inflation may run above the Fed's Goldilocks target of 2.0% for some time.

Retail Sales Outpacing Expectations

The National Retail Federation (NRF) issued an upwardly revised 2021 sales forecast and now expects retail sales to grow between 10.5% and 13.5% over 2020, to a range between $4.44 trillion and $4.56 trillion. That's a big jump from initial forecasts of growth between 6.5% and 8.2%. The initial forecast was made when there was a great deal of uncertainty about vaccine distribution, consumer spending and fiscal stimulus. NRF seldom revises its forecast in such a dramatic fashion, but noted that the economic data that has come in since February has made it clear sales would grow much more robustly than anticipated. Sales have now grown year-over-year every month since June 2020.

Ecommerce Boom Continues

The 2021 Ecommerce Shipping & Benchmarks Report found that 29% of US consumers surveyed said they will continue to shop for more items online than they did before the pandemic. The survey covered the time period between April 2020 through March 2021 and predicts that between 20% and 30% of the global CV19-related shift to online purchasing will become permanent. According to the survey, the average order was $78.09 and the average shipping cost was $9.43. Looking over a longer time frame, they found that package deliveries spiked in early 2020, rising 147% in spring compared to spring 2019 and 130% in summer. Winter 2020-21 saw a 96% increase in online purchases. Some surveys have found that as many as 89% of respondents plan to do more shopping online. According to the report, when the pandemic pushed people into relying more on online purchases and other services they discovered how easy and convenient it was to shop from home. It also raised the bar for everyone in ecommerce. Almost 80% of respondents said they expected brands to find ways to offer the same shipping speeds as they did before the pandemic and 51% said they did not expect to pay more for faster delivery.

Customers Expect Free Shipping

A trend report from online selling platform Jungle Scout found that 80% of online shoppers expect free shipping if they meet a set order amount and 66% expect free shipping regardless of how much they spend. As far as delivery goes, 91% of respondents expected online orders to arrive within a week; 9% wanted same-day delivery. No matter what the expectations, 70% said they'd be upset if an order did not arrive on time. According to Jungle Scout, 71% of consumers reported shopping at Amazon in recent months; 39% shopped online at Walmart and 20% shopped online at Target. A Ware2Go survey found that 80% of consumers are more likely to hit the Buy button if shipping is free and 75% said two-day shipping would also be an incentive. And ShipStation found that consumers want more visibility into where their package is and when it will actually arrive.

Most Patriotic Brands

Jeep came out on top for the 19th consecutive year in the Brand Keys ranking of the 50 brands that consumers believe best embody the values of patriotism. Walmart took the number two spot, and Amazon came in at number four. The Home Depot ranked in the top twenty, coming in at 17. The results are based on a national sample of 5,804 consumers 16 to 65 years of age balanced for gender and political affiliation and drawn from all nine US Census regions. Consumers assessed 1,172 brands. *Chain Store Age* noted that a brand's ability to connect with consumers helps build loyalty.

Amazon Applies Artificial Intelligence to Worker Safety

Amazon is testing a wide variety of robotic and smart technology solutions designed to create a safer and more worker friendly workplace for their human employees. One project involves using motion-capture technology to assess the movements of volunteer employees performing tasks in a lab that are common in facilities. The software allows Amazon scientists and researchers to compare data captured in the lab to industry standards. Amazon is also testing a new workstation called

Ernie that is designed to reduce the need for employees to reach up or bend down when retrieving items from mobile shelves as products move through the center. Ernie takes totes off the robotic shelf and uses a robotic arm to deliver the tote to an employee, who is then able to remain in a more comfortable, stable and ergonomic position. A robot named Bert (all of Amazon's robots are named after Sesame Street characters) is one of the first robots that doesn't need to be confined to restricted areas, but could be deployed across a facility. Other robots that transport carts and do other jobs designed to make the environment safer for employee are also being tested. Kermit is focused on moving empty totes from one location to another so Amazon can get them back to the starting line for refilling. Kermit is doing so well it's currently being tested at several sites across the US. Amazon says the robots are helping them visualize and identify relatively simple changes that can have a big impact.

Amazon Changing Delivery Expectations and Shipping Logistics

The Amazon logistics network is a marvel of technology and engineering that delivers most orders in just a day or two. Most US Amazon orders are handled out of 110 US fulfillment centers, many of which are 800,000-to one-million square foot warehouses filled with robots and staffed by at least 1,500 full-time employees. Slightly smaller centers handle bulky goods such as furniture, lawn mowers and mattresses. The average worker at a fulfillment facility makes about $40,000 a year plus benefits. They rely on Kiva robotics to help them pick the order, pack it and SLAM it, which stands for scan, label, apply and manifest. Then the package rides miles of conveyer belts and is sorted out by destination zip codes. Amazon used to rely on FedEx, UPS and the postal service to actually get orders that last mile or two to the customer's door, garage, trunk or designated locker, supplemented by freelancers who drove their own vehicles and made about $20 an hour. But now Amazon is rolling out their own fleet of dark gray Prime vans to handle many deliveries and plans to convert to an all-electric delivery fleet by 2040. Supporting this US network are 20,000 tractor trailer trucks and Amazon's own cargo airline, Prime Air. The size of the Prime Air fleet has doubled this year to 85 leased jets and Amazon is building its own $1.5 billion airport hub in Kentucky.