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Holiday Sales Results and Forecasts

Interest Rate Forecasts

Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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US ECONOMY

Exchange Rates November 30, 2022

Euro	1 Euro = $1.032	$1.00 = 0.969 Euros
Canadian Dollar	1 CAD = $0.739	$1.00 = 1.354 CAD
Japanese Yen	1 Yen = $0.007	$1.00 = 139.318 Yen
Chinese Yuan	1 Yuan = $0.141	$1.00 = 7.087 Yuan
Mexican Peso	1 Peso = $0.052	$1.00 = 19.371 Pesos

Market Watch November 30, 2022

DOW	34,590	5.3%
NASDAQ	11,468	3.3%
S&P 500	4,079	4.6%

Stocks soared at the end of the month as investors were encouraged by remarks by Fed Chairman Jerome Powell that seemed to confirm that the rate and pace of interest rate increases could slow down as inflation cools off.

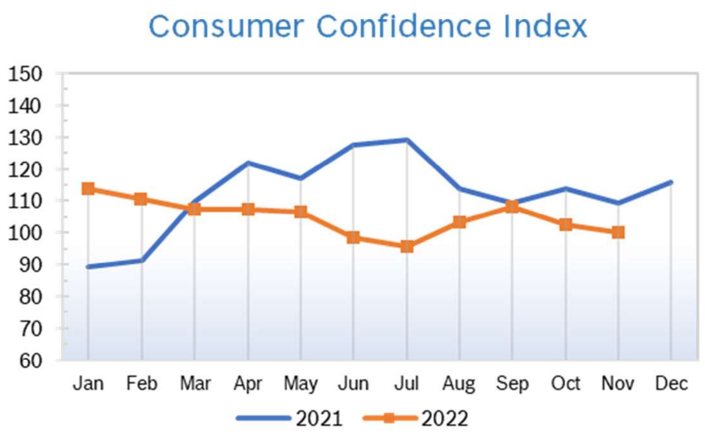
Consumer Spending Rises 0.8%

Consumer spending rose 0.8% in October after rising 0.6% in September. The increase was about twice as much as economists expected. Core consumer spending rose 0.5% in October after rising 0.3% in September. Spending on goods increased 1.4%, driven by purchases of motor vehicles, furniture and recreational goods. Outlays on services gained 0.5%, lifted by spending at restaurants and bars, as well as on housing and utilities. Strong wage gains and holiday promotions fielded in October helped fuel spending. Personal income rose 0.7%, the most in a year. Disposable income, adjusted for inflation, rose 0.4%. Consumers also tapped into savings to fund purchases. The savings rate dropped to 2.3%, the lowest since July 2005, from 2.4% in September. The saving rate was as high as 26.3% in March 2021. It is now near levels seen during the 2007-09 Great Recession.

Consumer Prices Rise 0.4%

The Consumer Price Index (CPI) rose 0.4% in October after rising 0.6% in September and was up 7.7% year over year after being up 8.2% in September. Core inflation, which excludes the volatile food and energy categories, rose 0.3% in October after being up 0.6% in September and was up 6.3% year over year. The personal consumption expenditures (PCE) price index rose 0.3% after increasing 0.3% in September and was up 6.0% over the past twelve months. That was the smallest year-over-year gain since December 2021. Excluding the volatile food and energy components, the core PCE, the Fed's preferred measure of inflation, rose 0.2% after rising 0.5% in September.

Consumer Confidence Falls to 100.2



- The New York-based Conference Board's Consumer Confidence Index fell to 100.2 in November after falling to 102.5 in October.*
- The Present Situation Index dropped to 137.4 in November after dropping sharply to 138.7 in October.
- The Expectations Index, based on short-term outlooks for income, business and labor market conditions, dropped to 75.4 in November after falling to an upwardly revised 77.9 in October.
- In May 2020 Consumer Confidence was 120.0 but fell 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 Steady at 3.7%

- The unemployment rate held steady at 3.7% in November after rising in October. Unemployment was 3.5% at the beginning of the pandemic in March 2020.
- The economy added 263,000 new jobs*, well above expectations, after adding 261,000* new jobs in October.
- Employers have already replaced all of the 22 million jobs lost during the pandemic and added 4 million jobs during the first ten months of the year.
- A cooling job market will help the Federal Reserve avoid a recession and achieve the elusive soft landing for the economy.
- The October Job Openings and Labor Turnover Survey (JOLTS) from the Bureau of Labor Statistics may indicate that the hiring frenzy is starting to die down. Job openings fell to 10.33M and are nearly 7% lower than last year. The number of workers quitting their job fell for the sixth time in seven months. Fewer voluntary departures reduce job openings and should help ease wage pressures.

Chicago PMI Drops to 37.2

The Chicago PMI dropped sharply to 37.2 in November after falling to 45.2 in October. It was the lowest level for the PMI since the onset of the pandemic in 2020. Economists had expected the PMI to rise into the 47+ range. A PMI number above 50 signifies expanded activity over the previous month; readings below 50 signify contraction. Looking back to when the series began in 1967, the PMI has ranged from 20.7 in June 1980 to 81.0 in November 1973.

Wholesale Prices Rise 0.2%

The Producer Price Index (PPI) rose 0.2% in October, below the 0.4% estimate. The PPI rose 0.4% in September. A significant contributor to the slowdown in wholesale inflation was a 0.1% decline in services, the first outright decline in that measure since November 2020. On a year-over-year basis, PPI rose 8% compared to an 8.4% increase in September.

Q3 GDP Rises 2.9%

Q3 GDP rose an upwardly revised 2.9%, according to the second reading from the Commerce Department. Upward revisions in consumer and business spending accounted for much of the revised growth. Residential investment contracted for the sixth consecutive quarter. When measured from the income side, the economy grew at a 0.3% rate. Gross domestic income (GDI) had contracted 0.8% in the second quarter. In principle, GDP and GDI should be equal, but in practice they generally diverge as they are estimated using different and largely independent source data. The average of GDP and GDI, also referred to as gross domestic output and considered a better measure of economic activity, increased 1.6% in the third quarter after shrinking 0.7% in the second quarter.

Real personal consumption expenditures (PCE), which account for roughly two-thirds of spending, rose an annualized 1.4% in Q3. Spending on durable goods, which tends to be sensitive to higher interest rates, edged down by 0.8%, while spending on non-durable goods slid 1.4%. Spending on services, which is still being boosted significantly by pent-up demand, grew 2.8%. Rapidly rising mortgage rates contributed to residential investment plunging by more than 26% in Q3. Residential investment has declined by more than 15% since peaking in early 2021.

HOUSING & CONSTRUCTION

Builder Confidence Falls to 33

Builder confidence fell five points to 33 in November after dropping to 38 in October, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). It was the eleventh consecutive monthly decline for the HMI after the index hit an all-time high of 90 in November 2021. The decline left the HMI below 50 for the fourth consecutive month and was the lowest confidence reading since 2012 with the exception of the onset of the pandemic in 2020. To bring more buyers into the marketplace, 59% of builders report using incentives, with a big increase in usage from September to November. For example, in November, 25% of builders say they are paying points for buyers, up from 13% in September. Mortgage rate buy-downs rose from 19% to 27% over the same time frame. And 37% of builders cut prices in November, up from 26% in September, with an average price of reduction of 6%. This is still far below the 10% to 12% price cuts seen during the Great Recession in 2008. All three HMI components posted declines in November. Current sales conditions fell six points to 39, sales expectations in the next six months declined four points to 31 and traffic of prospective buyers fell five points to 20. 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 2.4%

Overall building permits fell 2.4% in October to a 1.53 million unit annualized pace after rising to 1.56 million units in September. Single-family permits fell 3.6% in October to 839,000 units after falling to 872,000 units in September. It was the lowest reading for single-family permits since June 2020 and marked the seventh consecutive month single-family permits have declined. Multifamily permits rose 7.8% to an annualized pace of 692,000 units. Regional permits were mixed year to date.

Housing Starts Fall 4.2%

Housing starts fell 4.2% in October to a seasonally adjusted annual rate of 1.43 million units after falling to 1.44 million units in October. Single-family starts fell 6.1% to 855,000 units after falling to 892,000 units in September and were down 7.1% year to date. Multifamily starts fell 1.2% to 570,000 units after dropping in double-digits in September. Regional starts were mixed.

New Home Sales Rise 7.5%

New home sales rose 7.5% in October to a seasonally adjusted annual rate of 632,000 new homes after falling to a downwardly revised 588,000 new homes in September. Sales were down 5.8% from October 2021 after being down 17.6% year over year in September. There were 468,000 new homes on the market at the end of October, a 9.2-months' supply at the current sales pace and up from 463,000 units in September. Houses under construction accounted for 63.4% of the inventory, with 23.6% of the homes not yet started. The median new home price was $493,000, up 15.4% from October 2021. Regional new home sales were mixed. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

Existing Home Sales Fall 5.8%

Existing home sales fell 5.8% in October to a seasonally adjusted annual rate of 4.43 million units after falling to 4.71 million units in September, according to the National Association of Realtors. It was the ninth consecutive month existing home sales fell. Sales were down 28.4% from October 2021. The inventory of unsold existing homes declined for the third consecutive month, falling to 1.22 million homes, a 3.3 months' supply at the current sales pace. The median existing house price increased 6.6% from October 2021 to $379,100. That marked 128 consecutive months of year-over-year home price increases, the longest such streak on record. There were 1.22 million previously owned homes on the market, down 0.8% from both September 2022 and October 2021. Inventory was at a 3.3- months' supply, up from 2.4 months a year ago. A four-to-seven-months' supply is viewed as a healthy balance between supply and demand. Properties remained on the market for an average of 21 days in October, up from 19 days in September. Sixty-four percent of homes sold in October 2022 were on the market for less than a month. Regional sales were mixed.

Regional Housing Data

	Northeast	**South**	**Midwest**	**West**
Builder Confidence	41 (-6)	42 (-7)	38 (-2)	29 (-5)
Building Permits YTD	-2.8%	1.1%	0.2%	-4.0%
Housing Starts Y/Y	2.9%	2.6%	-1.5%	-5.1%
New Home Sales*	45.7%	16.0%	-34.2%	-0.8%
Existing Home Sales*	6.6%	-4.8%	-5.3%	-9.1%

* Year over Year

Mortgage Rates Fall to 6.8%

- 30-year fixed-rate mortgages fell to 6.8% at the end of November after jumping to 7.08% at the end of October. Mortgage rates were 3.1% at the end of October 2021.
- Mortgage interest rates have more than doubled over the past year.
- Mortgage rate volatility is making it difficult for potential home buyers to decide whether and when to buy.

POWER TOOL INDUSTRY

Stanley Black & Decker

Morgan Stanley Laguna Conference:

They are focused on streamlining their business, 90% of which is in the tools and outdoor market. That means focusing on their brands, their people and supporting innovation. After the "massive wave of inflation" they've dealt with over the past 18 months they need to streamline and de-layer corporate, improve day-to-day operations and transform their supply chain into one where more products are made in North America and parts of the world other than Asia.

They believe supply chain transformation can drive $1.5 billion of value. They will also be reducing the complexity of their product families and SKUs in order to improve their manufacturing footprint and supply chain.

They also want to reduce the number of suppliers even further and consolidate their facilities. They plan to reduce facilities by 30% over the next three years.

They will also focus on getting back to operational excellence and lean productivity. They lost some of that during the pandemic as they tried to meet unexpectedly high levels of demand. They need to get gross margins back to 35% or better in the tools business.

They are focused on removing both cost and complexity; they will use some of the savings to invest in growing their core strengths, improving their digital marketing and investing in the supply chain in order to help drive their transformation. Continuing to improve fill rates with their customers will also help them grow their businesses.

About 20% of their SKUs generate 80% of their revenue. So they need to review the 80% of other SKUs and decide which ones are necessary to meet the needs of their end users and customers. They believe many SKUs can be discontinued.

Their consumer business is slightly down from pre-pandemic levels. On the Pro side, the business is up and continues to grow. There is a healthy backlog of work for construction workers, general contractors and builders. Companies that supply materials to construction also have significant backlogs of six to nine months.

They are grappling with what the state of the housing industry will be in 2023, and whether it will slow down the construction market. They believe there will be at least a modest pullback, but nothing like occurred between 2007 and 2009 when there was a massive correction.

Real estate values are probably overinflated but there is still a great need for new construction of both homes and commercial buildings as well as infrastructure.

September and October are big shipping months as their customers bring in merchandise for the holidays and they are on track to fulfill those orders and meet expectations.

The skilled workforce in construction took a big hit in the Great Recession and never recovered. People who left the industry then found other jobs. It is slowly improving. However, the current shortage of workers ensures that if there is a mild recession most workers will ride it out rather than leave their profession.

They want as much organic growth as possible, but it has to be at the right profit levels that produce margins of 35% or more. They feel they are slugging it out with their major competitor (TTI) and they will keep aggressively going after share gains.

After their competitors go through their rounds of price increases, they will evaluate and see where their price points stack up and decide how to respond.

They want to work at increasing their presence with one customer where their major competitor has a bigger presence. At other customers' stores, their brands dominate. They intend to go after more share with all their customers.

RETAIL

Retail Sales Rise 1.3%

Retail sales rose 1.3% in October after being flat in September. Retail sales were up 8.3% year over year. Core retail sales, which exclude automobiles, gasoline, building materials and food services, rose 0.7% in October after rising an upwardly revised 0.6% in September. Building materials and garden supply stores were up 1.1%; online sales rose 1.2%. The retail sales report covers about a third of overall consumer spending and doesn't include services, such as travel and entertainment. Core retail sales correspond most closely with the consumer spending component of GDP.

The Home Depot

Q3 sales rose 5.6% to $38.9 billion and comp store sales rose 4.3% overall and 4.5% in the US.

Q3 Conference Call with Analysts:

All 19 US regions delivered positive comp store sales. Mexico's comp sales were above company average and Canada's were below, in local currency. Eleven of fourteen merchandising departments posted positive comps.

They believe the long-term underpinnings of demand for home improvement remain strong and think they are well-positioned to leverage their distinct competitive advantages and take advantage of compelling growth opportunities.

During the third quarter comp average ticket increased 8.8% and comp transactions decreased 4.4%. The growth in comp average ticket was driven primarily by inflation across product categories as well as demand for new and innovative products.

Pro sales continue to outpace DIY sales. They're encouraged by the continued momentum they are seeing with both Pro and DIY customers. In addition, Pros tell them their backlogs remain strong. They continue to see momentum with larger Pro customers who continue to post strong double-digit comps.

During the quarter, their project business remained healthy. They saw double-digit comp performance in building materials, plumbing, lumber and new work departments as well as in other categories like fencing, siding, conduit boxes and fittings, hubs and showers and cabinets.

They now have 100% of their appliance delivery volume managed through their market delivery operations, which has greatly improved the customer experience. On-time and complete deliveries have increased and customer satisfaction metrics have gone up 6% over third quarter last year.

Online sales leveraging their digital platforms increased nearly 10% compared to the third quarter of last year. Approximately 50% of their online orders were fulfilled through their stores.

They're excited about the holiday season. Their Halloween event set records both in-store and online, as customers continue to add to their Halloween décor collection with the unique and exclusive items they offer.

Their holiday gift center will focus on brands that customers want, including Ryobi, Makita, DeWalt and Ridgid.

They did see some deceleration in certain products and categories, although it is hard to know what is behind that. The customer could be pulling back in general, it could be a reaction to price inflation, there could be categories that people over-bought during the pandemic or people could be moving on to other projects.

Homes have appreciated 40% over the last 3 years. Year-over-year home prices are up 13%. Since last December, home prices are up 8%, so appreciation is definitely slowing down. If there is a correction at all, most experts predict it will be a modest adjustment. They do not know if that would be meaningful enough to affect spending behavior.

No one is expecting anything like the massive drop in home prices seen in the 2008 housing crash when nearly 25% of homeowners were underwater.

Of owner-occupied households in the US, 40% are owned outright, with no mortgage. Of the 60% that do have a mortgage, 90% of those mortgages are fixed rate, 73% of those mortgages are fixed at a rate below 4%. They are seeing people choose to stay in place and improve their home. That's what their customers are telling them, and that's what the Pros report their customers tell them.

Transactions have declined for six consecutive quarters because they are lapping the tremendous activity driven by the pandemic. In addition, all retailers were dealing with supply chain issues that impacted what was on the shelf, commodity inflation, etc.

In Q3, inventory grew 27% year over year. In Q2, they grew their inventory 38% year over year. They typically build inventory from Q2 to Q3. This year their inventory actually came down by $400 million from Q2 to Q3. They believe their inventory position is very healthy.

THD confirmed full-year guidance of comp sales gains of about 3%.

Other News:

The Home Depot partnered with influencers to make over a vacation rental in the Berkshires. Holly and Brad Lauritzen (Our Faux Farmhouse), Fariha Nasir (Pennies for a Fortune) and Danielle Guerrero (Our Nest on Powell) were tasked with re-imagining the entrance, patio, kitchen, living areas and guest rooms within the rental home. Using only products found at The Home Depot or HomeDepot.com, the influencers created designs to exemplify current trends throughout the Berkshires property, including vintage-inspired wallpaper and lighting blended with contemporary furniture. Paint and textiles were used to further update the home. They also focused on using products that were functional and comfortable as well as beautiful and met the needs of guests. Adding these types of upgrades enhanced the guest experience and helped homeowners maximize the return on their investment properties. As a part of the home transformation, The Home Depot will make in-kind donations of unused furniture, décor and housewares items to nonprofit organizations including Habitat for Humanity, House2Home, Safe Haven Family Shelter and Oasis Center.

Lowe's

Q3 sales were $23.5 billion with comparable sales up 2.2% overall and 3% in the US. Comparable average ticket increased 8%, driven by product inflation, 80 basis points of commodity inflation and higher Pro sales.

Q3 Conference Call with Analysts:

Sales in Canada were down 10.2% in USD, with roughly half of the decline attributable to a stronger dollar. Pro sales were up 16% in the quarter, driven by broad-based strength across all categories. DIY sales trends improved.

They're awarding $200 million in bonuses to frontline hourly associates ahead of the holiday season in recognition of the tremendous job they have done.

Their Pro business grew 16% and 36% on a two-year basis, the tenth consecutive quarter of double-digit Pro growth. They are building on their greatly improved Pro product and service offerings with their new MVP Pro Rewards and partnership program and their enhanced Pro CRM. Pros remain optimistic, with over 70% saying that they expect even more work in 2023 than they had in 2022.

Lowes.com sales grew 12%, more than four times their overall US sales growth, representing a sales penetration of 10%.

The rollout of their market delivery model for big and bulky products is going well. Eight geographic regions covering more than half of their stores are now converted to the new model. They are on track to complete the rollout by the end of next year.

Their expanded coastal holding facility network is opening up capacity for them to hold product upstream from their distribution centers.

Sales are holding up well. Even in markets where home prices have declined after a steep run-up during the pandemic they are not seeing any negative impact on sales.

They feel good about the long-term housing market. The average age of homes in the US is over 40 years old and roughly 3 million more homes built during the housing boom in the mid-2000s will be entering prime remodeling years, which usually means big ticket repairs will be needed.

This is one of the key reasons why two-thirds of home improvement spending is nondiscretionary; it's spent on repair or maintenance projects that cannot be delayed. In addition, there is a persistent under-supply of homes and 250,000 first-time millennial homebuyers are expected to enter the market every year through 2025.

They had a strong sell-through in Halloween with an early sell-out of a 12-foot lighted animated mummy at a price point over $300, a good example of strong discretionary spending. Halloween in general is a highly discretionary category, and the success is a further indication of the strength of the consumer.

They kicked off the holiday season with trim and tree sets early in the quarter and are seeing early sell-through on taller, higher-end artificial Christmas trees, which is another example of both discretionary purchasing and consumers trading up.

They have been transforming their disaster response capabilities over the past few years which has dramatically impacted their ability to support communities through devastating storms like Hurricane Ian. Year round, Lowe's now has a cross-functional command center dedicated to supporting disaster response efforts, which also allowed them to respond effectively and quickly to the pandemic

They now offer same-day delivery nationwide with more than 1,700 stores supported by Instacart. This partnership allows them to deliver over 30,000 items stocked in stores that weigh up to 60 pounds. In the days leading up to Hurricane Ian they received thousands of same-day orders as customers prepared for the storm. They are also on track to meet their goal of decreasing shipping times by 50%.

They recently asked all of their regional vice presidents to find Pros who do not want to sign up for their loyalty program so they could talk to them and better understand why. However, they discovered that once Pros understand the benefits of their program they were eager to join, so they haven't been able to do many interviews. Instead they are focusing on increasing awareness of the benefits and making sure their execution lives up to their promises.

Regarding their recent announcement to sell their Canadian operations to Sycamore Partners, Ellison said that they would have had to make significant investments in Canada to bring the business up to parity with the US business and decided that money could be better spent maximizing the enormous opportunities they have in the US.

They raised their earning guidance but not their overall sales guidance and expect 2022 sales of approximately $97 to $98 billion, representing comp sales of flat to a decline of 1% compared to 2021. They expect Q4 comp sales to be slightly positive and expect continued strong Pro performance and steady DIY trends.

Other News:

Lowe's is partnering with German high-end appliance manufacturer Miele and will be the exclusive home center retailer for three Miele dishwashers, two front-loading washers and one dryer. The Miele app allows consumers to operate their appliances remotely.

Walmart

Q3 revenue rose 8.7% to $152.8 billion, beating expectations. Comp sales rose 8.2% year over year, almost double expectations of 4.3% growth. The growth was led by market-share gains in their grocery business.

Ace Hardware

Q3 revenues rose 10% to a record $2.2 billion. Net income was $100.6 million for the third quarter of 2022, an increase of $1.3 million from the third quarter of 2021. The approximately 3,600 Ace retailers who share daily sales data reported a 5.8% increase in US comp sales for Q3. Estimated retail inflation of 11.2% helped drive the 9.5% increase in average ticket. Comp transactions were down 3.4%.

Total retail revenues for the quarter rose 2.3% to $193.4 million. Ace added 35 new domestic stores in the third quarter and cancelled 10 stores. Ace ended the third quarter with 4,841 domestic stores, an increase of 82 stores from the third quarter of 2021.

Ace Hardware has already opened 130 new stores in 2022 and is planning to open at least an additional 40 stores in Q4. That will result in a total of more than 170 new stores by the end of the year. Ace operates more than 5,600 locally-owned hardware stores in all 50 states and 65 countries, with global sales topping $20 billion.

Amazon

Amazon Personalize enables developers to improve customer engagement through personalized product and content recommendations and also personalize their websites, apps, ads, email and more, using the same machine learning technology used by Amazon. Amazon says that no machine learning experience is required to get started with Amazon Personalize.

Amazon hit an unfortunate milestone when they became the first company ever to lose more than $1 trillion in market value, according to Bloomberg. Amazon's market value fell to $879 billion in November, down from a high of $1.88 trillion in July 2021.

Amazon is reviewing all of their unprofitable businesses, including the devices unit that houses voice assistant Alexa, as part of broad cost-cutting efforts, according to *The Wall Street Journal.* Amazon is closely evaluating its Alexa business and is currently considering whether it should focus on trying to add new capabilities to the voice assistant, which is available on a variety of Amazon devices. Adding capabilities would require greater investment, and many customers use the device for only a few functions, according to the report. The unit that houses Alexa has posted an operating loss of more than $5 billion a year, according to WSJ.

Following a months-long review, Amazon told employees in some unprofitable units to look for jobs elsewhere in the company, while moving to redeploy staff from certain teams to more profitable areas and closing teams in areas such as robotics and retail.

Amazon plans to lay off as many as 10,000 workers across many divisions, including devices, retail, and human resources, according to *The New York Times.* Many tech companies are laying off employees now that the pandemic-era tech boom is cooling off and labor costs are still increasing.

Amazon founder Jeff Bezos urged Americans to wait on making big-ticket purchases ahead of the holiday shopping season amid growing concerns of a possible economic recession during an interview with CNN.

Bezos told CNN that he plans to donate most of his $124 billion lifetime wealth to combat the climate crisis and to fight deep social and political divisions in the world. He did not provided details on how he plans to employ his fortune in pursuit of the goals he has set for himself.

Jeff Bezos announced Dolly Parton is the winner of this year's Bezos Courage and Civility Award, which recognizes leaders who "courageously seek solutions." Parton, whose own fortune is estimated at $375 million, was awarded $100 million to use as she sees fit, according to *Forbes.* Parton is known for her philanthropic actions and said that the money donated by Bezos will go to charitable causes she supports, including children's literacy.

CANADA SNAPSHOT

Unemployment Falls to 5.1%

- The unemployment rate fell to 5.1% in November after holding steady at 5.2% in October. In January 2021 unemployment peaked at 9.4%.
- Employment rose by 10,000 jobs in November after rising by 108,000 jobs in October.
- Employment rose in several industries, but fell in construction and retail.
- Employment increased in Quebec but declined in five provinces, including Alberta and British Columbia.
- Year-over-year wage growth remained above 5% for the sixth consecutive month.
- There were few signs that tight labour market conditions in recent months have led to an increase in workers voluntarily leaving a job or switching jobs.

Consumer Prices Steady

Canada's inflation rate held steady at 6.9% in October, matching the increase in September. Faster price increases for gas and mortgage interest rates were offset by slowing price growth for food. On a monthly basis, the CPI rose 0.7% in October following a 0.1% gain in September, largely driven by increased prices for gasoline. On a seasonally adjusted monthly basis, the CPI was up 0.6%. The homeowners' replacement cost index, which is related to the price of new homes, slowed in October (+6.9%) after increasing 7.7% in September. This index has decelerated, on a year-over-year basis, every month since May 2022 when it rose +11.1%.

Q3 GDP Grows 2.9%

GDP grew 2.9% in the third quarter, well ahead of expectations of 1.5% growth, according to Statistics Canada. Much of the growth came from higher exports in energy and agriculture.

Household spending dropped 0.3% in the quarter, the first drop since the second quarter of 2021. Much of the decrease came from lower spending on goods. Spending on services continued to grow, although at a much slower pace than in the previous quarter.

Investment in housing also fell sharply, with the annualized decline in residential investment dropping 15.4%. Renovation and housing resale activity both fell, as rising interest rates continue to push up mortgage costs.

The unexpected increase in GDP means that the BoC will most likely raise interest rates again in early December. Most analysts expect another half-point increase.

Housing and Construction News

Canadian housing starts fell 11% in October, pulling back after reaching the highest level in 2022 in September, according to Canadian Mortgage and Housing Corp. (CMHC). The seasonally adjusted annualized rate of housing starts fell to 267,055 units from a revised 298,811 units in September. Starts fell on both multiple unit and single-family detached homes.

Canadian home sales inched up 1.3% in October, the first increase in seven months. The number of newly listed properties rose 2.2% month over month, according to the Canadian Real Estate Association (CREA). However, the number of transactions decreased by more than 36% in October 2022 compared to October 2021. The decrease was most likely due to rapidly rising interest rates.

Canadian economists believe the housing market still has much further to fall in terms of prices and sales. From the February 2022 market peak to spring 2023, home prices are predicted to fall as much as 30%. Currently, national home prices have fallen by 10% since the peak and 15% in the pricey Greater Toronto area. The sales-to-new listings ratio eased back to 51.6% in October compared to 52% in September, meaning there were more sellers than buyers in the market, according to CREA. To have a stabilized market, the ratio needs to reach 60%. A big uptick in sales would be needed In order for that to happen. Economists don't think sales will increase significantly anytime soon as rates are expected to continue to increase and buyers and sellers alike are sitting on the sidelines.

Retail Sales Drop 0.5%

Retail sales decreased 0.5% to $61.1 billion in September after increasing to $61.8 billion in September. Sales declined in 7 of the 11 subsectors, representing 74.9% of retail trade. Core retail sales, which exclude sales at gasoline stations and motor vehicle and parts dealers, decreased 0.4%. Sales at building materials and garden supply retailers fell 2.0% and were also down for the third quarter. It was the first quarterly decline since sales fell by 11.9% in the second quarter of 2020. In volume terms, third quarter retail sales were down 1.4%. Retail sales decreased in seven provinces, with British Columbia seeing the steepest decline.

Retail Ecommerce Sales Fall 5.4%

On a seasonally adjusted basis, retail ecommerce sales were down 5.4% in September. On an unadjusted basis, retail ecommerce sales were down 0.1% year over year to $3.4 billion in September, accounting for 5.3% of total retail trade. The share of ecommerce sales out of total retail sales fell 0.4% from September 2021.

Retail Notes

Canadian Tire reported Q3 retail sales grew by 2.8% but excluding sales of petroleum at Canadian Tire's gas stations, sales grew just 0.6%. Canadian Tire reported total revenue rose 8.1% to $4.2 billion in Q3. At flagship Canadian Tire stores, comparable sales rose 0.7%.

Lowe's struck a deal to sell its Canadian operations, including Rona and Reno-Depot chains, to New York private-equity firm Sycamore Partners for US$400 million in cash plus unspecified performance-based benefits. The agreement will mark the end of a frustrating multiyear run in Canada for Lowe's, during which it struggled to make Rona sufficiently profitable.

Sycamore will take over about 450 stores, including 70 Lowe's big-box stores and some 150 corporate-owned Rona stores as well as the wholesale business supplying 210 independent Rona dealers. Many of those independent dealers are expected to end their contracts with Lowe's Canada and look for new hardware and building-materials buying groups to ally themselves with, such as Castle Building Centres Group Ltd., Groupe BMR Inc., or Home Hardware Stores Ltd.

Lowe's entered the Canadian market in 2007 and made a hostile attempt to buy Rona in 2012 that was rejected by the company as well as the Quebec government. The U.S. giant initially failed to understand the political and public sensitivity in the province to a foreign takeover.

MARKET TRENDS

Home Building Shifts to Smaller Markets

New findings from the National Association of Home Builders (NAHB) Home Building Geography Index (HBGI) show a shift in home building activity over the past 30 months, with notable slowing in large, metro urban areas due to people fleeing large metros during the pandemic. Interest rate increases contributed to falling affordability in high-cost and highly regulated markets. In addition, the move to remote and hybrid work has also enabled people to live away from city centers.

Single-family production has slowed in all regional submarkets, both large and small, due to ongoing building material production bottlenecks, construction labor shortages and the Federal Reserve's tightening monetary policy, according to NAHB. The index shows that the market share for single-family home building in large metro core and inner suburbs fell from 44.5% to 41.6% between the fourth quarter of 2019 (pre-Covid) and the second quarter of 2022.

In contrast, single-family home building in outer suburbs in large and medium sized metros expanded from 17.4% to 19% during the same period. From the fourth quarter of 2019 to the second quarter of 2022, single-family home building market share in small metro core counties increased to 29% from 28.8%. In rural areas, which represent non-metro/micro counties, the home building share rose to 10.4% from 9.4%.

The multifamily market showed a similar pattern over the same time frame. The market share of multifamily construction in large metro core areas fell from 41.7% in the fourth quarter of 2019 to 39.3% in the second quarter of 2022.

The HBGI is a quarterly measurement of building conditions across the country and uses county-level information about single- and multifamily permits to gauge housing construction growth in various urban and rural geographies.

The Evolution of the American Garage

Many Americans use their garages for everything but parking cars. A new survey from Stanley Black & Decker's Craftsman brand found more than a third of American garages (36%) are so unorganized people can no longer park a vehicle in them. More than half (52%) are unsatisfied with how their garage is organized.

There are more than 82 million garages in the US and according to the survey, more than 60% of Americans with garages feel their garage is the untidiest area in their house. At the same time, 90% of Americans with garages surveyed believe that a well-organized garage can make a small garage appear larger, and over 4 in 5 (85%) cite a well-organized and usable garage as a source of pride.

What's taking up all that room? Nearly 80% reported that power tools and hand tools were the top products stored in the garage. In addition, 76% keep outdoor tools and equipment inside. In fact, 67% of adults with garages say they have so many tools that keeping them organized is a must. More than half (52%) prefer that their tools and storage systems match in their garage.

For many Americans, the garage has become an extension of the home with modern functions such as living areas, home gyms and workspaces. The Craftsman Take Back Your Garage Survey found that 53% of US adults use their garage or workspaces in their home for DIY projects, with millennials being the most frequent at-home DIYers at 62%, followed by Gen X at 56% and Gen Z at 54%. In keeping with these DIY tendencies, 31% of adults with garages report they store arts and crafts materials in their space.

The most common activities in the garage were automotive maintenance and home renovation projects (each 46%), woodworking (41%), leisure activities like socializing and hosting parties (33%), and furniture restoration or redesign (26%). Power drills were the most common tool stored in the garage, with 56% saying their power drill was their most-used tool, followed by shop vacs at 41%.

Outdoor equipment stored in the garage includes leaf blowers (62%) in their garage, followed by string trimmers (57%), walk-behind lawn mowers (51%), hedge trimmers (49%) and chainsaws (48%).

Black Friday Month

Black Friday has turned into Black November for many retailers, with different weekly deals all month long. Walmart kicked theirs off November 7 and is giving Walmart+ members a several-hours head start on shopping deals. Lowe's beat them to it, launching their first round of deals November 3 as did The Home Depot. Lowe's and THD stores will be closed on Thanksgiving as retailers treat employees to the day off to spend with their families knowing that many people will go online shopping sometime Thursday.

Holiday Spending Recap and Forecasts

A record 196.7 million people shopped from Thanksgiving through Cyber Monday. According to the National Retail Federation (NRF), 17 million more people shopped this year than shopped over the same period last year. Total retail sales jumped about 11%, not adjusted for inflation, according to Mastercard SpendingPulse data.

Online sales were up 4% from 2021, according to Adobe Analytics. The five-day weekend, from Thanksgiving through Cyber Monday, generated $35.37 billion in online sales. Black Friday, with $9.12 billion spent, and Thanksgiving, with $5.29 billion, also broke previous online spending records for those days. Cyber Monday sales rose to $11.3 billion from a year earlier, making it the biggest U.S. online shopping day ever.

The percentage of people shopping in stores jumped 17% over last year. Analysts noted that shopping over the holidays is both a traditional and social activity and believe there was pent-up demand for the experience, not just the deals. The number of online shoppers grew by a smaller percentage, rising 2% to 130.2 million online shoppers this year.

After seeing the results from the five-day weekend, NRF feels confident that sales will meet or exceed their forecast of growth between 6% and 8% over 2021 levels to between $942.6 billion and $960.4 billion in November and December. While that would be a step down from the 13.5% growth notched in 2021 it would be well above the 4.9% average over the past 10 years.

Many households are expected to supplement spending with savings and credit to provide a cushion so they can have the holiday season they've been looking forward to. Analysts note that the holiday shopping season kicked off even earlier this year as retailers made preemptive moves to capture more of the consumers' holiday dollar. Many shoppers worried about rising inflation and the availability of products took advantage of early promotions rather than waiting for last-minute deals.

Deloitte's forecast is a bit more conservative than NRF's. They expect holiday retail sales will increase between 4% and 6% and ecommerce sales will rise between 12.8% and 14.3% compared to 2021, when online holiday sales grew by 15.1% during the November to January time frame. They believe Inflation is definitely dampening demand and expect consumers to shift how they spend their holiday budget. Inflation may raise dollar sales, but they believe there may be less growth in volume. Deloitte also thinks that rising prices may push more sales online as consumers look for deals. Deloitte recommended that retailers capture available spending dollars by clearly displaying in-stock quantities of hot items and find ways to bundle products and offer unique deals to loyal customers.

Fed Rate Increases May Slow

Now that inflation is slowing, the Fed may also slow the pace of rate increases. They raised rates by another three-quarters of a percent in early November to a range between 3.75% and 4.0%. The last time rates were this high was during the first three weeks of 2008 when the economy was sliding into a deep recession. A series of steep rate cuts quickly followed then. However, the Fed has stated that rates will remain elevated until the economy cools off enough to tamp down persistently high inflation and wage growth. The job market remains very tight; unemployment will need to tick up a bit before wage growth will slow significantly.

Yields on longer-term US Treasuries have fallen further below yields on short-term bonds than at any time in decades, a sign that investors think the Federal Reserve is close to winning its battle against inflation. A scenario in which short-term yields exceed long-term yields is known on Wall Street as an inverted yield curve and is often seen as a red flag that a recession is looming. Yields on Treasuries largely reflect investors' expectations for what short-term interest rates set by the Fed will average over the life of a bond. Longer-term yields are generally higher than shorter-term yields because investors want to guard against the risk of unexpected inflation and rate increases.

An inverted yield curve means that investors think the Fed will need to slash borrowing costs to revive a faltering economy and are confident that short-term rates will be lower in the longer-term than they will be in the near-term. After digesting the Fed's official statements, most investors still expect the central bank to raise rates to about 5% by early next year, up from the current level between 3.75% and 4%. However, the latest encouraging report on consumer prices has led many to believe the Fed will start cutting rates in late 2023 and begin promoting economic growth without worrying about promoting high inflation.