

# Market Briefing

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Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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## US ECONOMY

### Exchange Rates January 29, 2021

<b>Euro</b>	1 Euro = \$1.214	\$1.00 = 0.824 Euros
<b>Canadian Dollar</b>	1 CAD = \$0.783	\$1.00 = 1.277 CAD
<b>Japanese Yen</b>	1 Yen = \$0.010	\$1.00 = 104.639 Yen
<b>Chinese Yuan</b>	1 Yuan = \$0.155	\$1.00 = 6.428 Yuan
<b>Mexican Peso</b>	1 Peso = \$0.049	\$1.00 = 20.253 Pesos

### Market Watch January 29, 2021

<b>DOW</b>	29, 983	-2.0%
<b>NASDAQ</b>	13, 071	1.4%
<b>S&amp;P 500</b>	3,714	-1.1%

Markets ended the month with a roller-coaster performance that resulted in the worst week for the indexes since last October. Stocks had rallied to record highs on hopes that vaccines would smooth the way for the economy to recover and the country to return to a degree of normalcy by the end of the year. But the rollout is going slowly and Johnson & Johnson’s one-dose vaccine is less effective than hoped. Much of the volatility was due to a retail trading frenzy that pitted Robinhood’s small investors against big hedge funds, pushing some retail stocks to dizzying heights for no sound reason. There is some feeling that the market is overheated and there is too much leverage in the system.

### Consumer Spending Falls 0.2%

**Consumer spending fell 0.2% in December** after falling a downwardly revised 0.7% in November. It was the second consecutive monthly decline in consumer spending, which had been rising since April. With new CV19 cases accelerating in much of the country, many states are adopting new restrictions and have closed or limited hours and capacity at retailers and restaurants and curtailed events and gatherings. Personal incomes rose 0.6% in December after declining the previous two months. Consumer spending accounts for 70% of US economic activity.

### Consumer Prices Rise 0.4%

**The Consumer Price Index (CPI) rose 0.4% in December**

after rising 0.2% in November. Core inflation, which excludes the volatile food and energy categories, rose 0.1% in December and was up 1.6% over the past 12 months. The overall increase was driven by a sharp rise in gasoline prices, which remain well below year ago prices. Wells Fargo expects inflation to firm up over 2021 as consumer spending rebounds during the second half of the year. Personal consumption expenditures (PCE), the Fed’s preferred measure of inflation, rose 0.4% in December after no change in October and November and were up 1.3% year over year, well below the Fed’s 2% target. Economists think it will be quite some time before inflation returns to a pace consistent with the Fed’s target of 2% and remains there.

### Consumer Confidence Rises to 89.3

Consumer Confidence Index



- ▶ The New York-based Conference Board’s Consumer Confidence Index inched up to 89.3 in January after falling to 88.6 in December.\*
- ▶ The Present Situation Index, which is based on consumers’ assessment of current business conditions, dropped to 84.4 after falling sharply to a downwardly revised 87.2 in December.
- ▶ Expectations rose to 92.5 after rising to 87.5 in December.
- ▶ Rising CV19 numbers across the country remained the primary contributor to consumers’ assessment of the present, but expectations for the future continue to rise, fueled by the vaccine rollout and a national CV19 plan promised by the new administration in the White House.

\*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 Drops to 6.3%

### U.S. Unemployment Rates



- ▶ The unemployment rate fell to 6.3% in January and the economy added 49,000 new jobs.\*
- ▶ December job losses were revised up from 140,000 to 227,000. December's losses were the first drop in jobs since April 2020.
- ▶ Thus far the US has recovered about 12 million of the more than 22 million jobs lost because of CV19. Payroll employment is still 10 million jobs below pre-pandemic levels.
- ▶ Professional and business services drove the gains; retailers shed 38,000 jobs after a gain in December.
- ▶ Vaccinations are picking up and warmer weather ahead will give a boost to restaurants and leisure employment.
- ▶ Wells Fargo believes that hiring will ramp up quickly once CV19 is under control due to pent-up demand.

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

## Job Openings Fall 1.6%

**U.S. job openings fell 1.6%, or 105,000 jobs, to 6.5 million at the end of November**, according to the latest Job Openings and Labor Turnover Survey (JOLTS) from the US Bureau of Labor Statistics (BLS). It was the first drop in job openings since August. Layoffs soared 17.6% to 1.9 million, driven primarily by a big jump in job cuts at restaurants, bars and hotels. The quits rate was unchanged at 2.2% in November as 3.2 million people quit their jobs. There were 1.6 unemployed workers for every vacancy in November. While job openings declined in manufacturing, jobs in retail went unfilled. Wells Fargo notes that at one

point job openings were down 31% year over year. Wells Fargo said that due to the relatively small sample-size, JOLTS may be painting a distorted picture, as response is coming from stronger businesses that have kept their doors open and are responding to the survey. 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 63.8

**The Chicago Purchasing Managers Index (Chicago PMI) rose to 63.8 in January** after rising to 59.5 in December and remained in positive territory for the seventh consecutive month after spending a full year below 50. New Orders jumped 7.9 points and Production soared 9.9 points as business activity picked up. Prices Paid increased for the fifth consecutive month, rising 1.7 points to the highest level since 2018, with firms reporting higher prices for metals. The special question asked if the recent increase in CV19 cases was negatively impacting their business. Half of respondents reported a mild negative impact, about a third reported no impact and 16% said it had had a strong negative impact. 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 0.3%

**The Producer Price Index (PPI) rose 0.3% in December** after rising 0.1% in November. The increase was slightly below expectations and primarily driven by a spike in energy prices. The PPI has risen for six consecutive months, but at a very slow pace. In the 12 months through December the PPI rose 0.8% after being up 0.8% year over year in November. Excluding the volatile food, energy and trade services components, producer prices rose 0.1% in December for the third consecutive month and were up 1.2% over the past twelve months. Over the past 12 months the PPI for inputs to new residential construction has jumped 6.6%, driven by climbing prices for many of the materials used in construction. Regardless, strong demand from builders and remodelers may keep prices high, according to Data Digest from the Associated General Contractors of America (AGC). Analysts noted that while pandemic-related price distortions are reversing, the trend in inflation is expected to remain subdued for some time.

## Q4 GDP Rises 4%

**GDP grew 4.0% in the fourth quarter**, slightly below expectations, according to the first reading from the Commerce Department. **For the full year the economy shrank 3.5%**, the sharpest annual decline in GDP since 1946. Consumer spending increased 2.5% in the fourth quarter after jumping 41% in the third quarter as restaurants promoted outdoor dining. That segment has since declined due to cold weather in much of the country. Business investment climbed 13.8% in the fourth quarter after rising 22.9% in Q3. Spending on computers is one of the things pushing up business investment as many firms buy technology so employees can work remotely and consumer upgrade their tech and add devices. Spending on factory equipment also rose as companies upgrade and expand so they can produce more goods to meet demand. Businesses are continuing to restock. Residential investment jumped, with housing construction rising 33.5% after a 63% gain in Q3. Exports and imports both increased more than 20%. Government spending dropped at all levels as states and cities dealt with pandemic-related costs and falling revenues. Analysts expect growth to slow to 2.3% in the first quarter of 2021 despite the vaccine rollout as cases remain high and restrictions remain in place. Some analysts are predicting GDP could contract in the first quarter before beginning to recover as vaccines become more widely available and consumer spending picks up.

## HOUSING & CONSTRUCTION

### Builder Confidence Falls to 83

**Builder confidence fell three points to 83 in January** after dropping four points to 86 in December, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). It was the first time the index was above 80 for five consecutive months. Rising materials costs led by a huge upsurge in lumber prices along with a resurgence of CV19 across much of the nation were behind the decline. All three major HMI indices fell in January. The index gauging current sales conditions dropped two points to 90, sales expectations in the next six months fell two points to 83 and the gauge charting traffic of prospective buyers decreased five points to 68. **Regional scores were mixed** for the second consecutive month. Any number over 50 indicates that more builders view the component as good than view it as poor.

## Building Permits Rise 4.5%

**Overall building permits rose 4.5% in December** to a seasonally adjusted annual rate of 1.71 million units after rising to 1.64 million units in November. **Single-family permits increased 7.8%** to a 1.23 million unit rate. Multifamily permits dropped 3.8% to 483,000 units. On a year-to-date regional basis, permits were mixed.

## Housing Starts Rise 5.8%

**Housing starts rose 5.8% in December** to a seasonally adjusted annual rate of 1.67 million units after rising to a seasonally adjusted annual rate of 1.55 million units in November.

**Single-family starts rose 12.0%** to a seasonally adjusted annual rate of 1.34 million units after rising to 1.19 million units in November. December starts were the highest since 2006. Total housing starts for 2020 were 1.38 million, up 7.0% from 2019. Single-family starts in 2020 totaled 991,000, up 11.7% from the previous year. Multifamily starts totaled 389,000, down 3.3% from the previous year. **Combined single-family and multifamily regional starts were mixed** year to date compared to 2019.

## New Home Sales Rise 1.6%

**New home sales rose 1.6% in December** to a seasonally adjusted annual rate of 842,000 units after falling to 841,000 units in November. Sales for 2020 totaled 811,000 units, up 18.8% from 2019 and the highest sales since 2006. Inventory rose slightly to 302,000 homes, a 4.3 months' supply, but all of the increase came from homes still under construction or not yet begun. Inventory was 18.3% below December 2019. The inventory of completed homes ready to sell remained at an all-time low. The median sales price rose to \$355,900, up 8% year over year. Wells Fargo noted that the acceleration in new home prices is being fueled by strong demand for larger and more expensive homes loaded with amenities because home is now also workplace and school, and often several generations are sharing one home. Construction costs have also ramped up, as lumber prices have soared and shortages of other key materials have made it more difficult to profitably build lower-priced homes. These factors are fueling growth in lower-cost, lower-density regions. **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 Rise 0.7%

**Existing-home sales rose 0.7% in December** to a seasonally adjusted annual rate of 6.76 million units after falling to 6.69 million units in November. It was the highest rate of sales since 2006. Existing-home sales were up 22.2% from December 2019. The median existing-home price for all housing types in December was \$309,800, up 12.9% from December 2019. December's national price increase marks 106 consecutive months of year-over-year gains. Total housing inventory at the end of December fell to a record-low of 1.07 million homes, down from 1.28 million homes in November. Unsold inventory was at an all-time low 1.9-months supply at the current sales pace, down from 2.3 months in November and down from the 3.0 months in December 2019. The pandemic has boosted demand for homes but has also meant that fewer homeowners are willing to put their homes on the market and go through the process of showing them. That imbalance has pushed up prices and led to bidding wars in some markets. Properties were on the market for an average of just 21 days. **Regional existing-home sales for December were mixed**, but were up year over year in all regions.

## Remodeling Index at 79

**NAHB's Remodeling Market Index (RMI) for the fourth quarter of 2020 posted a reading of 79**, signaling residential remodelers' strong confidence in projects of all sizes. The remodeling market was healthy in 2020, but slowed a bit at the end of the year due to rising CV19 cases and economic uncertainty about the future. In the fourth quarter, all components and sub-components of the RMI were 71 or above. The Current Conditions Index averaged 85, with large remodeling projects (\$50,000 or more) at 78, moderately sized remodeling projects (\$20,000 to \$50,000) at 88 and small remodeling projects (under \$20,000) at 89, strong readings for projects of all sizes. The Future Indicators Index averaged 72, with leads and inquiries at 71 and the backlog of remodeling jobs at 73. Because the Remodeling Index was redesigned in 2020 to make it easier to respond to and more accurately reflect industry trends, it cannot be compared to previous RMI readings. So in order to track quarterly trends, the redesigned RMI survey asks remodelers to compare market conditions to three months earlier, using a 'better,' 'about the same,' 'worse' scale. In the fourth quarter, 68% indicated conditions were the same as in the third quarter, 21% said they were better and 11% thought conditions were worse.

## Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence*	76 (-6)	86 (-1)	83 (+2)	95 (-1)
Building Permits YTD	-5.2%	+7.3%	+7.4%	+2.1%
Housing Starts Y/Y	-2.8%	+7.5%	+13.2%	+6.2%
New Home Sales	-6.1%	-5.1%	+30.6%	+8.8%
Existing Home Sales*	+4.5%	+1.1%	Flat	-1.4%

\* Year over Year

## Mortgage Rates Steady at 2.7%

### 30-Year Fixed-Rate Mortgage



- ▶ A 30-year fixed-rate mortgage (FRM) held steady at 2.7% at the end of January. Mortgage rates were 3.5% at the end of January 2020.
- ▶ Freddie Mac notes that historic low rates are fueling housing demand and competition to buy is strong due to the low inventory that exists across the country.
- ▶ The fact that there are not enough homes to meet demand is going to be an ongoing issue for the foreseeable future.
- ▶ While mortgage rates are historically low, credit standards are tightening as lenders attempt to avoid issuing loans that might go into default.



## POWER TOOL INDUSTRY

### Stanley Black & Decker

**Q4 revenue rose 19%** to \$4.4 billion with organic growth of 16%.

**Q4 Tools & Storage revenue rose 25%** with organic revenue rising 23% and price contributing 2%.

**FY 2020 revenue rose 1%** to \$4.408 billion with 10% organic growth in the second half offsetting the pandemically impacted first half.

#### Q4 and FY 2020 Conference Call:

**Despite record Q4 results and FY 2020 coming in above expectations, CEO Jim Loree expects the operating environment for 2021 to be volatile,** uncertain, complex and ambiguous, which he dubbed VUCA.

**For FY 2021 they expect 4% to 8% organic growth.** The MTD acquisition in the second half is not included in their guidance.

**The second half of 2020 proved to be an all-out test of their supply chain** resiliency and their ability to keep up with demand. 2020 proved to be the most difficult year they've ever faced.

**Customer inventory levels had been substantially reduced by mid-year** and global factories were running at historically high levels, as they still are today. They faced rolling labor shortages, supplier issues and various government regulations and restrictions.

**In Q4 all regions in the US benefited from exceptionally strong revenue trends** related to consumers growing dedication to indoor and outdoor home improvements. North America was up 27% organically. Retail continued to see exceptionally strong POS, delivering 36% organic growth.

**Power Tools delivered 32% organic growth in Q4,** thanks to strong trends, excellent execution over the holidays and new product introductions.

**Power Tools continues to see strong share gains from new innovations** in FlexVolt, Atomic and Xtreme, which now account for a combined total of \$600 million of annual revenue.

**The Hand Tools, Accessories and Storage business grew 15% organically in Q4,** supported by new product launches, strong performances in emerging markets and Mac Tools, combined with the rebound in professional demand.

**Retailer inventories ended the year slightly below Q3 levels** and well below prior-year.

**Construction customers within the North American commercial and industrial channels were up in the mid-teens in Q4,** another strong signal that professional demand is back and accelerating.

**They believe the investments they made will drive further organic growth in 2021 and 2022.** They invested in further developing their brands via increasing digital marketing, distribution capacity and adding additional commercial resources to support both brick-and-mortar and ecommerce business. Growth catalysts included FlexVolt, Craftsman, Atomic, Xtreme and Power Detect, along with an overall boost from ecommerce.

**The industrial portion of the Tools segment is in the midst of a cyclical rebound.**

**They expect to exercise their option to acquire the remaining 80% of MTD** during the second half with the potential addition of up to \$3 billion in revenue from MTD in 2022.

**They have designed, developed and are launching new cordless 20 volt DeWalt walk-behind mowers** and MTD will launch a new lineup of gas handheld products under the Black & Decker brand.

**For 2021 they expect strong growth in Tools & Storage to continue** and expect organic revenue growth for the entire company between 21% and 26% during the first quarter.

**They expect Tools & Storage to grow 30% to 40% organically during Q1.** That represents \$600 million to \$800 million of organic growth in Q1.

**For FY 2021 they expect Tools & Storage to grow 4% to 8%**, based on organic growth of 27% to 32% in the first half and a decline of 7% to 12% in the second half. They have not assumed the market will remain robust for the entire year of 2021, but will be ready to respond if it does. About 75% to 80% of growth is weighted to the US and North America.

**Their guidance assumes continuing strong demand and the potential for customer inventories to start to move back up to historic levels.** They expect the strong trends to moderate in the second quarter but still remain robust. Beginning in May 2020 they built up more than \$500 million in inventory to serve the demand that was occurring, which enabled them to get ahead and stay ahead.

**For the second half they expect growth to moderate** and will have to deal with comparisons to historically high comp growth during the second half of 2020.

**They expect \$125 million of carryover cost savings** net the reversal of temporary actions from the cost reduction program they implemented in the second half of 2020.

**They believe that their installed customer base for battery systems is very important to growth**, as more and more first timers buy new battery systems and then invest in additional tools. Growth overall could be a short-term bubble that moderates over time or a trend that continues to grow modestly over a number of years.

**CEO Jim Loree believes that once people discover DIY it becomes “somewhat addictive”** and they invest more. Eventually that acceleration declines over time.

**Pros started coming back in the third quarter** and now are so busy it is impossible to get a contractor in much of the country.

**January 2021 is on track to deliver \$400 million in growth for the month** in Tools & Storage. January is typically a very slow month, and in 2020 February and March were both negative comps as well.

**From an inflation perspective they see the potential for \$75 million of headwinds**, primarily from steel, base metals, transportation, electronic components and resins. They generally lock in supply agreements one to two quarters out. They have

about 100 people focused full time on inflation trends and estimate that drives between \$100 million and \$150 million of annual value.

**The billion dollars in headwinds they faced between 2017 and 2019 are behind them**, and were driven by inflation, tariffs and foreign exchange, which combined to create headwinds too large to offset with the normal methods they typically employ. That is not a material issue this year.

**Their commitment to their “Make Where You Sell” campaign over the past three or four years has had the effect of significantly adding capacity throughout North America**, including Mexico and the US. Major plants in both Mexico and the US will be coming online later in 2021.

**In the third and fourth quarters of 2020 they employed many heroic measures to meet demand**, including air freight and expediting products; eventually that will not be necessary as more capacity comes online.

**They successfully exceeded all of their five-year medium-term environmental health and safety goals** established in 2015, including a 20% reduction in energy consumption, carbon emissions, water use and waste generated by facilities.

## RETAIL

### Retail Sales Fall 0.7% in December

**Retail sales fell 0.7% in December** after dropping a downwardly revised 1.1% in November and 0.1% in October. Sales were up 2.9% from December 2019. The three back-to-back declines came after several months of growth. Sales at home improvement stores continued to rise, climbing 0.9% in December and 17% for the full year. Online sales fell 5.8% in December, but rose 19% for the year. The December decline was attributed to Amazon getting the holiday season off to an early start by hosting their annual Prime Day event in October rather than in the summer and consumers shifting holiday spending into November, but analysts are concerned about spending going forward. Core retail sales, which exclude automobiles, gasoline and sales at building and supply stores and food services and factor into calculations for GDP, fell 1.9% in December after falling a downwardly revised 1.1% in November.

## Holiday Sales Rise 8.3%

**Retail sales during the November through December holiday season rose an unexpectedly high 8.3%** compared with holiday 2019, according to the National Retail Federation (NRF). Sales were well above NRF's forecast of an increase between 3.6% and 5.2%. Numbers include online and other nonstore sales, which jumped 23.9% to \$209 billion. The increase was more than double the 3.5% average holiday increase during the previous five years and the 4% gain in 2019. Retail analysts said that consumers spent money saved over the year because they weren't traveling, dining out or going to events. Consumers were also encouraged by news of vaccines becoming available. There were double-digit increases for building materials stores and sporting goods stores.

## Lowe's

**Lowe's plans to hire more than 50,000 workers for the busy spring season** in hopes of meeting pandemic-fueled demand for home improvement products.

**Lowe's will pay frontline workers about \$80 million in additional discretionary bonuses**, bringing their total CV19 financial commitment to employees and communities to nearly \$1.3 billion. Spring is typically the busiest time of year for home improvement retailers. Lowe's has hired more than 90,000 workers for permanent positions over the past year.

## Walmart

**Walmart is piloting a partnership that will enable deliveries directly to a temperature-controlled "smart box"** outside customer homes. The smart box is powered by an Internet of Things (IoT) platform with three temperature-controlled zones so it can properly store frozen, refrigerated and pantry items. When it is time for a delivery the smart box communicates with the delivery provider's device and gives them secure access to the smart box. The pilot test with Home Valet is Walmart's latest effort to keep pace with Amazon's gradually expanding Amazon Key "smart entry" delivery service.

**Walmart ecommerce boss Marc Lore is leaving the company** now that most of the online operations he once oversaw have been absorbed into Walmart's business. Lore joined Walmart in 2016 after Walmart bought his startup Jet.com in order to increase their online offerings and add more inventory

and distribution centers. Lore retired the end of January, but will stay on as a consultant through September. The online business will continue to report to US CEO John Furner. Walmart said Lore played a key role in helping them achieve their e-commerce objectives, but insiders say many of his initiatives were deemed too unprofitable or not aligned with Walmart's core business. Meanwhile, Lore is writing a book, creating a reality TV show, buying a sports team and says he will continue to mentor female entrepreneurs.

## Ace Hardware

**Ace introduced three exclusive new color palettes.** Their Clark+Kensington 2021 Color Trends are designed to help people make more of their living spaces, which now get much more use, and focus on mindful living, the desire to simplify surroundings and the urge to escape and unleash creativity.

## Fastenal

**Fastenal revenue rose 6.46%** to \$1.36 billion in the fourth quarter, beating analysts' expectations.

## Amazon

**Amazon delivered more than 1.5 billion products all over the world this holiday season** as online shopping grew by pandemic leaps and bounds. In addition, third party sales on Amazon's marketplace rose by more than 50% year over year. Amazon has reportedly absorbed more than \$5 billion in operational costs on behalf of independent sellers since the start of the pandemic, and recently announced that they would delay raising merchant fees. According to Mastercard SpendingPulse, ecommerce sales in the US grew 47.2% year over year from November 1 through December 24, 2020, and online sales accounted for 19.7% of overall retail, up from 13.4% in 2019.

**Amazon is now offering at-home CV19 testing kits** for \$110 each, or \$1,000 for 10. Amazon says it is the first at-home coronavirus saliva testing product that is FDA-approved for use by both people experiencing symptoms and those who are asymptomatic. However, unlike a home pregnancy test, the saliva sample collected must be sent to the indicated sample lab. After the package arrives at the lab, people will learn their results in 24 to 72 hours. Costco began selling swab-free kits in October for \$130, and Walmart and Sam's Club have offered similar products since December.



**Amazon is now allowing customers to request a reduction in the amount of plastic packaging included with their order.** To opt out of receiving plastic packaging, people need to go online to chat with Amazon's Customer Services and follow the prompts. Amazon says they get a lot of requests to reduce the amount of plastic packaging used.

**Amazon is creating a \$2 billion housing equity fund to support affordable housing stock in cities where Amazon has a major footprint.** The first cities chosen are Arlington, Virginia, Puget Sound, Washington and Nashville, Tennessee. The goal of the fund is to use below-market loans and grants to housing agencies to create 20,000 housing units in each of the three cities.

**Amazon is purchasing 11 Boeing 767-300 aircraft in order to expand their air delivery capacity.** Amazon Air will play a central role in helping Amazon ramp up same-day delivery and transport items across longer distances in shorter timeframes.

**Amazon warehouse workers in Alabama will vote on forming the first union in Amazon's history in February,** according to the National Labor Relations Board. An Amazon spokesperson said that they work hard to support our teams and more than 90% of associates at the Alabama warehouse would recommend Amazon as a good place to work to their friends.

## CANADA SNAPSHOT

### Unemployment Rises to 9.4%



- ▶ The unemployment rate rose to 9.4% in January after inching up to 8.6% in December. It was the highest rate of unemployment since August 2020.
- ▶ Employment fell by 213,000 (1.2%) after dropping by 63,000 in December.
- ▶ All of the job losses in January were in the part-time work category and were concentrated in Quebec and Ontario in the retail sector.
- ▶ Employment in construction rose by 39,000 (2.8%) in January, driven by gains in Quebec and Alberta.
- ▶ The number of Canadians working from home rose by 700,000 in January, more than were working from home during the first wave of CV19 restrictions in April.
- ▶ During the 2008/2009 recession, the unemployment rate rose from 6.2% in October 2008 to a peak of 8.7% in June 2009. It took approximately nine years before it returned to its pre-recession rate.
- ▶ CV19 restrictions have been reinstated in several regions and temporary layoffs remain high.

## Consumer Confidence Rises to 90.7

**The Index of Consumer Confidence rose 4.9 points to 90.7 in January** after rising to 85.8 in December, according to the Conference Board of Canada. Consumer confidence improved as the government extended relief payouts and the economy regained some momentum. Compared with its peak, reached in February (120.6), the index is now 29.9 points below its pre-pandemic level. The monthly Index of Consumer Confidence is constructed from responses to four attitudinal questions posed to a random sample of Canadian households.

## Consumer Prices Fall

**The Consumer Price Index (CPI) fell unexpectedly to an annual growth rate of 0.7% in December** after rising to 1.0% in November. On a seasonally adjusted monthly basis consumer prices fell 0.2% in December; analysts had expected a 0.1% increase. Consumer prices rose at the slowest pace since 2009 in 2020, increasing just 0.7% on an average annual basis, after increasing 1.9% in 2019. Falling transportation and energy prices contributed to the overall decline. Excluding food and energy, overall inflation rose 1.1%. Prices increased in nine provinces.

## GDP Grows 0.7% in November

**GDP grew 0.7% in November** after growing 0.4% in October, the seventh consecutive monthly gain. GDP was 3% below pre-pandemic levels in February 2020. Both goods-producing (+1.2%) and services-producing (+0.5%) industries were up, as 14 of 20 industrial sectors posted gains in November. Preliminary information indicates an approximate 0.3% increase in real GDP for December. This flash estimate points to an approximate 1.9% increase in real GDP in the fourth quarter of 2020 and to an approximate decline of 5.1% for the year. The retail trade sector grew 1.1% in November and 12 subsectors were up. Building material and garden equipment and supplies grew 3.4%, up for the fourth consecutive month, and non-store retailers rose 3.1% following two months of decline. Construction edged up 0.1% in November. Engineering and other construction activities increased 0.6% and repair activities edged up 0.1%. Partly offsetting these gains was a 0.9% decline in non-residential construction, while residential construction was unchanged in November.

## Interest Rates

**The Bank of Canada (BoC) held key interest rates at 0.25% at their first meeting in January**, reiterating that they expect the key rate will remain near zero until at least 2023. An accompanying statement noted that the economic recovery in Canada and elsewhere was interrupted by new waves and strains of CV19 infections and new rounds of economic restrictions. The bank also noted that the earlier-than-expected rollout of vaccines has improved the medium-term outlook for growth. They have maintained for some time that they expect the recovery to be choppy and uneven. The central bank said it is maintaining its large-scale asset-purchase program at the current pace of at least \$4 billion Canadian dollars each week.

**Overall, the Bank of Canada anticipates economic growth of 4% in 2021**, down slightly from the previous estimate of 4.2% growth. Growth is projected to rise to 4.8% in 2022 and 2.5% in 2023.

## Housing and Construction News

**The six-month moving average of housing starts fell 12.2% in December.** Multifamily starts fell 15.1% after rising in November. Analysts said some pullback from November's surge was expected. Despite the drop in December, Canada Mortgage and Housing Corp (CMHC) says the six-month moving average climbed to 239,052 units in December from 236,334 in November. CMHC said that total starts in 2020 surpassed 2019 despite the pandemic, which is remarkable, especially considering restrictions in Quebec that caused construction in the province to grind to a halt in April. CMHC expects housing starts to remain elevated this year, as issuance of permits has remained strong and mortgage rates are low.

**Home sales rose 47.2% year over year in December, hitting an all-time record for the month and closing out a record year**, according to the Canadian Real Estate Association (CREA). It was the largest year-over-year gain in monthly sales in 11 years. Sales for the month were also up 7.2% compared with November. The record-shattering December marked the sixth consecutive month of year-over-year home sales hikes, after the CV19 pandemic led to shutdowns across the country in the key March to May home sales season. For 2020 as a whole, CREA said some 551,392 homes were sold, up 12.6% from 2019, and a new annual record. In December, the seasonally adjusted annual rate of home sales was 714,516, topping

700,000 for the first time. The actual national average home price was a record \$607,280 in December, up 17.1% from the final month of 2019. CREA said that excluding the Greater Vancouver and Greater Toronto areas, two of the most active and expensive markets, lowers the national average price by almost \$130,000. Inventory was at a historic low of just 100,000 homes at the beginning of January compared to 250,000 in January 2019. Year-over-year prices are up in double-digits for most areas. Mortgage rates are expected to remain low.

**Semi-rural areas and smaller cities across Canada are seeing record-high home sales** as remote work and record-low mortgage rates enable people to go home shopping. Thirty regions in Canada hit record sales from January through November, with most in smaller markets in Ontario, Quebec, Manitoba, New Brunswick and Nova Scotia, according to CREA. Many of the properties being sold were actually built as weekend cottages, so it is likely renovations and expansions to accommodate full-time living will soon follow.

## Retail Sales Rise 1.3%

**Retail sales rose 1.3% in November** after rising 0.4% in October to \$55.2 billion. It was the seventh consecutive monthly increase for retail sales. The increase was driven by food and beverage stores and ecommerce sales. Core retail sales, which exclude gasoline stations and motor vehicle and parts dealers, rose 2.6% on higher sales at food and beverage (+5.9%) and general merchandise (+1.6%) stores, as well as building materials and garden equipment and supplies dealers (+2.2%). Sales were up in 7 of 11 subsectors, representing 53.4% of retail trade. In volume terms, retail sales rose 1.2% in November. Sales were up in nine provinces, led by Quebec and Ontario.

## Retail Ecommerce Sales Rise

**On an unadjusted basis, retail ecommerce sales reached \$4.3 billion in November, accounting for 7.4% of total retail trade**, and up from \$3.1 billion in October. The share of ecommerce sales out of total retail sales (7.4%) rose 2.0% from October and was up 3.0% year over year. The rise in sales coincided with retailers urging online shoppers to buy early to avoid shipping delays, as well as promotional events such as Black Friday. Retail ecommerce sales were up 75.9% year over year in November, while total unadjusted retail sales increased 5.8%. When adjusted for basic seasonal effects, retail ecommerce increased 2.7%.

## Retail Notes

**A Canadian “Buy Local” program is targeted at driving sales to more than 4,000 independent stores in four cities**, Toronto, Calgary, Halifax and Vancouver. The website is called Not Amazon. The program was launched by the owner of a vintage clothing store in Toronto who bought the URL for \$2.99. The site now sports hundreds of businesses with websites that offer nationwide shipping, curbside pickup and delivery. So far the website has had more than half a million page views. The site is now submission-based, and the organizer says thousands of businesses are awaiting review and approval. Small and medium-size businesses contribute more than 50% of Canada’s GDP, but since the pandemic 40% of small businesses have reported layoffs and 20% have deferred rent payments. The Canadian Federation of Independent Businesses estimated that one in seven Canadian businesses, or 225,000, will close because of the pandemic. One business owner was surprised to find that 27% of her online shoppers had come through Not Amazon. Business is booming and she is actually hiring more employees and considering expanding.

**Amazon will open five new sorting and delivery facilities in Quebec** that will create more than 1,000 jobs and speed up consumer deliveries.

## MARKET TRENDS

### Analysts’ Economic Projections

**Many analysts upgraded their 2021 GDP and unemployment forecasts** after Democrats won both Senate races in Georgia, saying that the Senate will have enough votes to push through programs to support consumers, businesses and the economy. Goldman Sachs (GS) now projects GDP growth of 6.4% in 2021, up from 5.9% previously and well above consensus estimates of about 3.9%. That faster growth should translate to more hiring and less firing. Morgan Stanley now anticipates GDP growth of 5.9%, based on the likelihood of further stimulus and fiscal expansion. GS is projecting another \$750 billion in fiscal stimulus in February or March, including \$300 billion in stimulus checks, \$200 billion in aid to state and local governments and \$150 billion in additional unemployment benefits. In addition, economists and policy analysts do not expect Democrats to enact dramatic tax hikes that would threaten the recovery, and also expect them to invest in infrastructure.

## Vaccinations are Good for Business

**Getting America vaccinated is one thing the entire business community agrees on.** The faster people are vaccinated, the faster the country will be able to return to a semblance of “normal” and the easier it will be to keep employees safe and businesses open.

**A number of large companies, including Walmart, Starbucks and Microsoft, are teaming up** with local government and medical providers in an effort to get coronavirus shots into more people’s arms as quickly as possible. The new Biden administration has a goal of one hundred million shots in the first 100 days, and 300 million by summer, which would theoretically be enough to ensure some degree of herd immunity by fall. These public-private partnerships could speed up distribution and delivery.

**Walmart has been quietly preparing to offer vaccine at their 5,000 US locations,** including Walmart stores and Sam’s Clubs. They have reportedly built a new digital scheduling tool to make appointments easy and are partnering with states and federal agencies while they await allocations. In late January, Walmart started vaccination programs in seven states, the city of Chicago and Puerto Rico. Walmart expects to deliver between 10 million and 13 million doses per month in both pharmacies and at events in underserved communities. Walmart reports that 150 million people visit Walmart stores each week, which puts them in a unique position to reach people.

**States are partnering up as well.** In Washington state, Governor Jay Inslee announced a public-private partnership with Starbucks, Microsoft, Costco and other Washington companies to deliver vaccines. The state of Florida has partnered with grocery chain Publix, which serves three southern states.

**Amazon partnered with a Seattle hospital to offer pop-up clinics to the public.** In addition, Amazon has an agreement in place with a healthcare provider to administer vaccines at their facilities as soon as doses are available. Amazon CEO of their worldwide consumer business, Dave Clark, personally contacted President Joe Biden to say that they stand ready to leverage their operations, information technology and communications capabilities and expertise to assist the administration’s vaccination efforts.

**Uber and Lyft have also offered logistical assistance and free rideshares,** and many companies are putting policies in place to give employees paid time off to get vaccinated. Even the NFL has gotten involved, with 7,500 vaccinated health care workers getting free tickets to the Super Bowl in early February to promote vaccinations.

## Consumers Can Skip Returns

**Some retailers, including Amazon and Walmart, are using artificial intelligence to decide whether it makes economic sense to process a return.** For inexpensive items or large ones that would incur hefty shipping fees, it is often cheaper to refund the purchase price but let the customer keep the product instead of sending it back. Companies say that they carefully analyze return behavior in order to identify anyone who might be taking advantage of the system. The number of ecommerce packages that were returned in 2020 jumped 70% from 2019, according to Narvar, a company that processes returns for retailers. It’s estimated that ecommerce returns could total as much as \$70.5 billion for this past holiday season alone, a 73% jump from the previous five-year average. After handling a record three billion packages during the holiday season, including some two million packages that arrived late, the USPS is now getting inundated with packages that need to be returned. UPS expected a 23% increase in returns for the first week in January, but FedEx said returns volume had actually dropped slightly, possibly because much of the online shopping surge in 2020 was essential goods.

## Tech Trends 2021

**USA Today issued their annual tech predictions for the year.** In addition to smarter smart phones, speakers and TVs, they’re predicting that Gmail will soon go to a paid subscription program. As of June 1, Google will no longer allow users to upload photos and videos to Google Photos for free. Microsoft and Yahoo still offer free email, but it’s loaded with ads, and people are encouraged to upgrade to premium versions to go ad-free. Yahoo will no longer allow people to automatically forward email from Yahoo Mail without paying an annual fee of \$34.99.

**5G will continue to be a buzzword for faster wireless speed, but won’t really deliver until late in 2021.** The number of Zoom and video meetings will continue to grow and meeting

remotely will become more popular. While business travel may eventually resume in some fashion later in the year, many companies have welcomed the lower costs and broader reach that come with virtual meetings. Some tech prognosticators believe Amazon may make a bid to acquire Zoom.

## Zillow Home Design Trends

**Home trends for 2021 have been heavily influenced by the pandemic**, which has profoundly changed the way many people live and work. Zillow recently fielded several surveys and released results:

**Home offices are here to stay.** In fact, a desire for a home with a dedicated office instead of a corner of the family room or basement topped the list of reasons Americans working from home (even occasionally) would consider a move. Zillow reports that the number of listings mentioning home office or Zoom room increased 48.5% from 2019.

**Outdoor Spaces are in.** People want to create a vacation feeling without leaving home, so amenities like swimming pools, outdoor kitchens and fire pits, entertaining and play spaces and waterfront and park-side property are in high demand.

**Intergenerational living will rise in popularity**, Zillow predicts, as both young adults and grandparents move in with family for financial and health reasons, or to provide live-in help for multitasking moms and dads.

**Upgraded kitchens are once again popular**, as people returned to cooking, baking and entertaining themselves at home. Big islands that allow for social distancing are also very popular.

**Fitness space is a big plus**, because many people are either reluctant or unable to go to gyms and classes. Zoom rooms can often double as personal workout space.

**Pet-friendly homes are even more popular than usual**, as work-flexibility made it easier for people to add pets to the family. Pet-friendly rentals are on the rise, with Zillow reporting that 73.1% of rental listings allowed pets, and there are more home listings featuring fenced yards, dog showers and pet entries.

## Amazon's Growing Advertising Business

**Amazon's advertising business, which reports in Amazon's "other" business unit segment, has been growing faster than Amazon's retail, cloud computing and Prime subscription divisions.** Amazon can offer advertisers highly valuable data that shows them how effective every dollar spent is, and provide more than two decades of insight on the actual buying habits of consumers, not just their web browsing habits. Several studies have shown that people are increasingly searching for things to buy directly on Amazon, rather than starting with Google. There are more than 200 million unique visitors to Amazon sites every month. Amazon's sponsored posts program is a sore spot with advertisers, because companies can pay to appear above a competitor, even if the customer has searched for a specific brand name. In addition, companies that don't actually sell products on Amazon are anxious to be able to tap into Amazon's purchasing data to help them target the right people. Companies such as auto makers and insurance companies say they can use purchase behavior to identify consumers who might be in the market for their products or services. This year Amazon is expected to account for 10.2% of US digital ad spending, versus Facebook's 23.5% and Google's 29.8%.