News from the Month of December 2020 | **EDITION 1**/ 2021

BOSCH

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US ECONOMY

Exchange Rates

Euro	1 Euro = $1.223	$1.00 = 0.818 Euros
Canadian Dollar	1 CAD = $0.784	$1.00 = 1.275 CAD
Japanese Yen	1 Yen = $0.010	$1.00 = 103.200 Yen
Chinese Yuan	1 Yuan = $0.153	$1.00 = 6.528 Yuan
Mexican Peso	1 Peso = $0.050	$1.00 = 19.894 Pesos

Market Watch December 31, 2020

DOW	30, 601	15.5%
NASDAQ	12, 888	18.1%
S&P 500	3,756	14.9%

Markets closed out a very volatile year on a high note, with the DOW and S&P closing at record highs and the NASDAQ hitting a record high before falling back slightly. After plunging in February and March, markets began recovering as the economy found footing, and generally trended upwards for the remainder of the year. For all of 2020, the DOW gained 7.25%, the S&P rose 16.3% and the tech-heavy NASDAQ soared 43.6%.

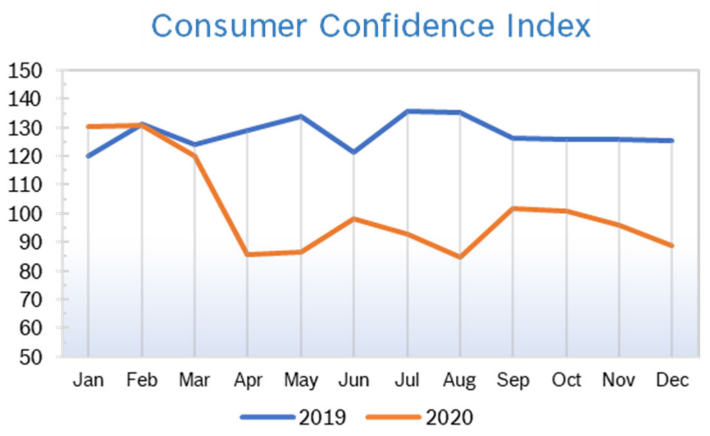
Consumer Spending Falls 0.4%

Consumer spending fell 0.4% in November after rising a downwardly revised 0.3% in October. It was the first decline in consumer spending 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 fell 1.1% in November as unemployment programs and other aid programs expired. It was the third drop in personal incomes in the last four months. Consumer spending accounts for 70% of US economic activity.

Consumer Prices Rise 0.2%

The Consumer Price Index (CPI) rose 0.2% in November after being essentially flat in October. The CPI was up 1.2% year over year for the second consecutive month. Excluding the volatile food and energy components, core prices rose 0.2% after being unchanged in October. In the 12 months through November the rate of increase for core prices remained 1.6%. Economists expect inflation to remain under control in the coming months until vaccines are widely available and consumers feel more confident about shopping, attending events and traveling. Shelter prices rose just 0.1% for the third consecutive month, with rental prices trending down. Shelter accounts for 42% of the core CPI, which should keep a lid on overall price growth. Wells Fargo expects inflation to increase, but remain below the pre-pandemic trend for quite some time.

Consumer Confidence Falls to 88.6

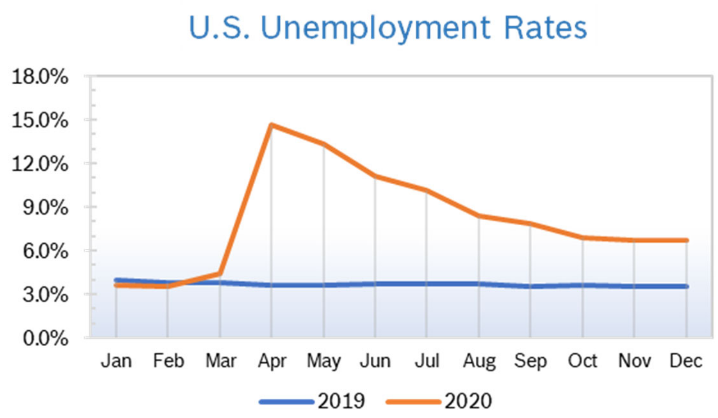


- The New York-based Conference Board's Consumer Confidence Index fell to 88.6 in December after falling to a downwardly revised 92.9 in November.
- The Present Situation Index, which is based on consumers' assessment of current business conditions, fell sharply to 93.3 after rising to a downwardly revised 105.9 in November.
- Expectations increased to 87.5 in December after dropping to a downwardly revised 84.3 in November.
- Rising CV19 numbers across the country helped send confidence down for another month despite encouraging news about vaccines and the resolution of the presidential election.

*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.

BOSCH Invented for life

Unemployment Remains at 6.7%



- The unemployment rate remained at 6.7% in December but the economy shed 140,000 jobs, the first drop in jobs since April. *
- Thus far the US has recovered 56% of the more than 22 million jobs lost because of CV19. Payroll employment is still 9.8 million jobs below pre-pandemic levels.
- The leisure and hospitality sector lost nearly 500,000 jobs, with three-quarters of the losses in restaurants and bars.
- The combination of surging CV19 cases, colder weather and new closures and other measures to halt the spread led to layoffs, but there were also job gains in retail and a handful of other industries.
- 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 Rise More than Expected

U.S. job openings rose by about 100,000 jobs in October to 6.65 million after rising to 6.4 million in September, according to the latest Job Openings and Labor Turnover Survey (JOLTS) from the US Bureau of Labor Statistics (BLS). Job openings are still 5% below pre-pandemic levels in February, but indicate that the labor market is recovering more quickly than payrolls would suggest. Wells Fargo notes that at one point job openings were down 31% year over year. By the October report they were down 9%, well within the range of the two prior downturns, and below the contraction during the Great Recession. The labor force has fallen by 4.1 million workers since February; many people have stopped looking for work over concerns about childcare and healthcare, including people sick with CV19 or in quarantine. Wells Fargo also noted 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 59.5

The Chicago Purchasing Managers Index (Chicago PMI) rose to 59.5 in December after falling to 58.2 in November and remained in positive territory for the sixth consecutive month after spending a full year below 50. New Orders fell two points but Production inched up just over a point as business activity picked up. Prices Paid rose 2.2 points to the highest level since 2018, with firms reporting higher prices for metals. The special question asked in December concerned respondents' business activity forecast for 2021. Just under half of the respondents believed their businesses would grow less than 5%; the remainder expected growth between 5% and 10%. 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 0.1%

The Producer Price Index (PPI) rose 0.1% in November after rising by the same percentage in October. The increase was in line with expectations. The PPI has risen for five consecutive months, but at a very slow pace. In the 12 months through November the PPI rose 0.8% after being up 0.5% year over year in October. Excluding the volatile food, energy and trade services components, producer prices rose 0.1% in November after rising 0.1% in October and were up 0.9% 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.

Q3 GDP Revised up to 33.4%

GDP growth for the third quarter was revised up slightly to

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33.4% from 33.1%, according to the third and final estimate from the Commerce Department. The third quarter rebound followed a record 31.4% decline in the second quarter that reflected the impact of business lockdowns and other restrictions put in place to combat the pandemic. Analysts believe that after two quarters of distorted data, GDP will return to a somewhat more normal growth rate in the fourth quarter of 2020, when economists expect growth of about 3.5%. Thus far the economy has proven more resilient than expected. The Fed recently revised their 2020 GDP forecast to a decline of 2.4% compared to the prior estimate of a 3.7% drop. Forecasts for 2021 GDP range from 3.9% to 5.9% growth.

Stimulus Package Passed

After months of tense negotiations, Congress passed a $900 billion CV19 relief bill just before Christmas. Despite saying he would veto the bill because the stimulus checks to individuals were not large enough, President Trump signed it into law late on December 27, averting a partial government shutdown. The bill provides $600 for each American making less than $75,000 annually, as well as $600 for each dependent. The legislation also gives unemployed workers a $300 weekly federal payment that runs through March 14th and makes food stamps payments more generous. The Paycheck Protection portion of the bill contains more funds that should be accessible to more small businesses. The bill also provides funding for states to handle vaccine distribution.

HOUSING & CONSTRUCTION

Builder Confidence Falls to 86

Builder confidence fell four points to 86 in December after rising to a record-setting 90 in November, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). It was the first time the index has been above 80 for four consecutive months and the eighth consecutive monthly increase. The HMI index gauging current sales conditions dropped four points to 92, the component measuring sales expectations in the next six months fell four points to 85 and the gauge charting traffic of prospective buyers dropped four points to 73. **Regional scores were mixed** after rising for six consecutive months. Any number over 50 indicates that more builders view the component as good than do as poor.

Building Permits Rise 6.2%

Overall building permits rose 6.2% in November to a seasonally adjusted annual rate of 1.64 million units after being unchanged at 1.55 million units in October. **Single-family permits increased 1.3%** to a 1.14 million unit rate after inching up 0.6% in October. Multifamily permits jumped 19.2% to a 496,000 unit pace after dropping to 425,000 units in October. **On a year-to-date regional basis, permits were mixed.**

Housing Starts Rise 1.2%

Housing starts rose 1.2% in November to a seasonally adjusted annual rate of 1.55 million units after rising to 1.53 million units in October. **Single-family starts rose 0.4%** to a seasonally adjusted annual rate of 1.19 million after rising more than 7% in both September and October. Single-family starts were up 10.0% year to date and remained at the highest level since spring 2007. Analysts expected starts to level off in November due to growing material shortages and higher lumber prices. Multifamily starts rose 4.0% to 361,000 units after remaining stable in October. **Combined single-family and multifamily regional starts were mixed year to date** compared to 2019.

New-Home Sales Fall 11%

New-home sales fell 11% in November to a seasonally adjusted annual rate of 841,000 units after slipping to 999,999 units in October. Sales were up 20.8% from November 2019. Inventory rose slightly to a 4.1 months' supply, with 286,000 new single-family homes for sale, 11.2% lower than November 2019.The median sales price was $335,300, up from $328,000 in November 2019. NAHB noted that the widening gap between new-homes sold and homes under construction finally caught up with sales, with the inventory of completed, ready-to-occupy new homes for sale down 43% from November 2019 to just 43,000 new homes. Builders are grappling with rising prices for materials and shortages of lots and labor. **New home sales rose in all four regions.** Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

Existing-Home Sales Fall 2.5%

Existing-home sales fell 2.5% in November to a seasonally adjusted annual rate of 6.69 million units after rising to 6.85 million in October**.** Existing home sales were up 25.8% from

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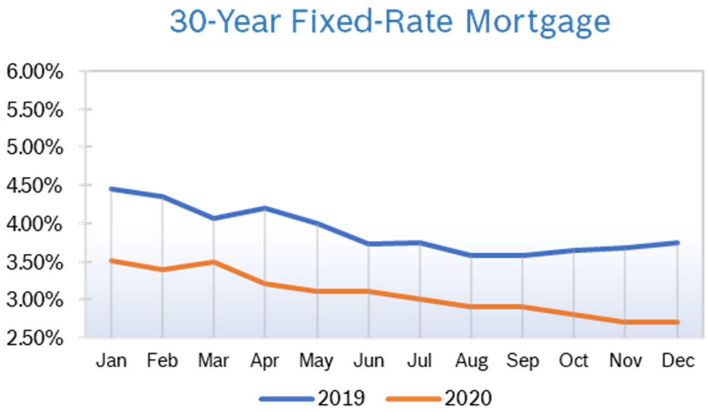
November 2019. The median existing home price for all housing types in November was $310,800, up 14.6% from November 2019. November's national price increase marks 105 consecutive months of year-over-year gains. Total housing inventory at the end of November fell to a record-low of 1.28 million homes, down from 1.42 million homes in October and down from November 2019. Unsold inventory fell to a 2.3-months' supply from 2.5 months in October and was down from a 3.7 months' supply in November 2019. Sales were held back by the exceptionally low number of homes available to buy. 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 21 days, down from 38 days in November 2019. **Regional existing-home sales fell in all regions** except for the West, where they were unchanged.

Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence*	82 (-1)	87 (+1)	81 (+1)	96 (+2)
Building Permits YTD	-4.4%	+6.9%	+5.7%	+0.7%
Housing Starts Y/Y	-3.3%	+7.6%	+14.4%	+5.4%
New Home Sales	+28.2%	+16.9%	+24.0%	+20.5%
Existing Home Sales*	-2.2%	-3.8%	-2.5%	Flat

* Year over Year

Mortgage Rates Steady at 2.7%



- A 30-year fixed-rate mortgage (FRM) held steady at 2.7% at the end of December. Mortgage rates were at 3.7% at the end of December 2019.
- Freddie Mac notes that historic low rates are fueling housing demand and expects rates to remain low in 2021, although falling inventory and higher home prices could stifle demand.
- 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

Robert Bosch Power Tools

Robert Bosch CEO Volkmar Denner called for the creation of an artificial intelligence (AI) code and noted that Bosch intends to become a leading AI and Internet of Things (IoT) company. The head of the Bosch Center of Artificial Intelligence, Christoph Peylo, noted that AI will fundamentally change society, but some people are fearful that machines will end up in control of people. Therefore, AI must be programmed according to ethical standards that ensure that does not happen.

Stanley Black & Decker

SB&D boosted their outlook for the remainder of the year

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due to stronger demand for tools and storage across North America, Europe and emerging markets, as well as improved performance in engineered fastening and attachment tools within their industrial segment. Tools and storage US retail sales are tracking above the high end of planning assumptions for the fourth quarter, with quarter to date growth up 22% through December 5 and organic growth approaching 10% compared to prior assumptions of 3% to 5% growth.

RETAIL

Retail Sales Fall 1.1%

Retail sales fell 1.1% in November and October sales were revised downward to a 0.1% decline from the 0.3% increase first reported. Sales were up 4.1% from November 2019. The two back-to-back declines came after several months of growth. Home centers, grocers and internet retailers posted small gains, but most other categories fell. Core retail sales, which exclude automobiles, gasoline and sales at building and supply stores and food services and factor into calculations for GDP, inched up 0.1% in November after rising a downwardly revised 0.9% in October.

Holiday Sales Rise 2.4%

US retail sales rose 2.4% between November 1 and Christmas Eve compared with the same period last year, according to Mastercard SpendingPulse, which tracks online and in-store spending with all forms of payment. Online sales grew 47.2%, excluding sales of gas and vehicles. Overall sales were below the 3.2% to 5.2% growth forecast by the National Retail Federation (NRF). Retailers with robust ecommerce operations such as Amazon, Walmart and Target, did very well but analysts note that online sales are generally less profitable than in-store sales. Foot traffic to stores fell considerably, with traffic down 31.3% in the seven days leading up to Christmas Eve. In addition, consumers tried to shop in fewer stores, sending sales up in Big Box stores and down in independent specialty retailers. Traditionally, the holiday season is also the time when many stores attract new customers. Nearly 90% of customers polled by America’s Research Group in recent years said that when they try a new store for the first time, it’s often during the holidays. But this year shoppers reduced the number of stores they visited to four or five from the usual six to eight.

The Home Depot

THD closed on their acquisition of HD Supply, paying $8 billion to beef up THD’s existing MRO business. The acquisition will improve their product offerings and value-added service capabilities, add an experienced salesforce and give them an established MRO-specific distribution network throughout the US and Canada.

THD agreed to pay a $20.75 million fine for violating federal environmental rules for failing to follow regulations for lead paint use in home renovations. It was the highest civil penalty ever levied under the federal Toxic Substances Control Act. THD will implement system-wide changes to ensure that contractors who perform work in homes constructed before 1978 are EPA-certified and follow lead-safe practices. The violations came to light when customers in five states complained that contractors were not following lead-safe work practices. A spokesperson for THD said they are committed to lead safety and safe work practices. Use of residential lead-based paint was banned in 1978 but the paint is still present in many older homes and apartments across the country.

Lowe’s

CEO Marvin Ellison introduced Lowe’s Total Home strategy during a virtual Investor’s Day conference in early December. Ellison said that Lowe’s is committed to offering everything a homeowner needs to provide “a total home solution” across all categories, including products and services for repairs and improvements for both DIY and Pro customers. He said that Lowe’s will cover all décor categories, including paint, as well as simple and complex installations. Ellison also vowed to grow market share by intensely focusing on the Pro customer, expanding their online business, modernizing installation services, improving localization efforts and elevating their product assortment.

Lowe’s donated and delivered $1 million worth of pre-lit Christmas trees to families and organizations impacted by the pandemic. Lowe's partnered with the NFL and nonprofits nationwide to deliver more than 13,000 Christmas trees to homes and facilities in need of extra cheer, from childcare and youth centers to first responder stations and nonprofit housing organizations.

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Walmart

Walmart is contracting with FedEx to launch a free service called Carrier Pickup by FedEx that will allow shoppers to return items by simply leaving them at their front door for a Fed-Ex delivery driver to pick up. Customers start the process online, select a date for pick up, print out and attach a shipping label and leave the item for FedEx. The service will be available anywhere FedEx offers their small parcel pick-up service. With many people still avoiding stores and shopping online, the ability to return items without having to leave home is seen as an important advantage.

In early December, Walmart eliminated the $35 minimum purchase requirement for Walmart+ members to qualify for free shipping. Members will now receive free next-day and two-day shipping no matter how much they spend. Chief Customer Officer Janey Whiteside said that customers have been clear that they want this benefit. Walmart+ costs $12.95 per month or $98 a year.

Walmart gave their 1.5 million full-time and part-time employees in the US additional cash bonuses for the fourth time during the pandemic. Walmart, the nation's largest private employer, is following in the footsteps of Lowe's, Target and Amazon. Part-time and temporary workers will receive $150 each, while full-time employees will receive $300. Walmart said they will pay out $2.8 billion in total cash bonuses to workers this year.

Walmart intends to acquire technology company JoyRun, which developed a peer-to-peer delivery app that allows users to request an order from a local store. If another user accepts the order, they can serve as a runner, picking it up and delivering it for a fee, or for free. JoyRun, which was established in 2015, has 30,000 runners and about 540 merchant partners. Both the team and the technology will become part of Walmart's Supply Chain Technology team when the deal closes. Financial terms were not disclosed.

Walmart is being sued by the Justice Department for fueling the nation's opioid crisis by pressuring WM pharmacies to fill "suspicious" prescriptions for the addictive painkillers. Federal law requires retailers to identify and report suspicious orders for controlled substances to the Drug Enforcement Administration. Walmart then accused the Justice Department of ethics violations and inventing a legal theory that turns pharmacies into middle-men between doctors and their patients.

Amazon

Amazon announced that third-party sales on the Amazon marketplace rose 50% globally during the holiday season. Nearly all third-party sellers are small and medium-sized businesses, according to Amazon. Amazon says that they invested more than $18 billion this year to help the sellers on Amazon marketplace. They also spent more than $100 million on new promotional activities to help small businesses connect with customers beginning with Prime Day and continuing through the holidays.

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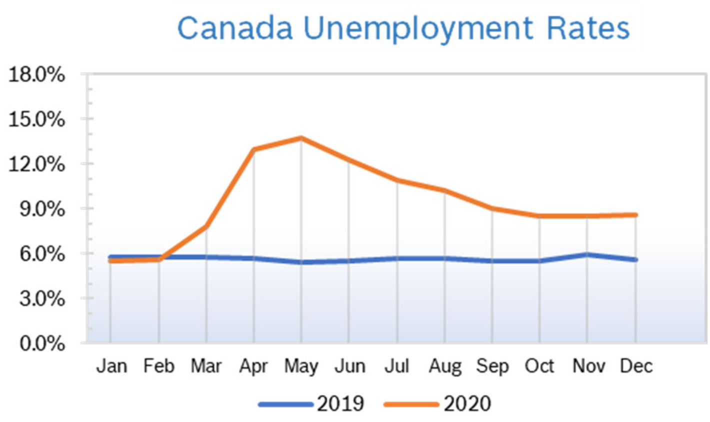
CANADA SNAPSHOT

Unemployment Rises to 8.6%



- The unemployment rate inched up to 8.6% in December after falling to 8.5% in November. Employment fell by 63,000 (-0.3%) after increasing 0.3% in November. It was the first decline in employment since April.
- Most of the job losses in December were self-employment. The number of employees in the private and public sectors were essentially unchanged.
- Employment declined in Nova Scotia, Saskatchewan, Manitoba and Prince Edward Island and held steady in the other six provinces. Employment is down the most in Alberta and Manitoba.
- Employment edged up in retail, but fell in many services sectors, especially accommodations and leisure, which includes dining out.
- 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 reinstituted in several regions and temporary layoffs remain high.

Consumer Confidence Rises to 85.8

The Index of Consumer Confidence rose 11.7 points to 85.8 in December after remaining at 74.1 in November, according to the Conference Board of Canada. It was the highest reading in eight months, as hopes that vaccines will soon be widely available fueled optimism. The index remains well below the peak of 120.6 reached in February 2020. The monthly Index of Consumer Confidence is constructed from responses to four attitudinal questions posed to a random sample of Canadian households.

Consumer Prices Rise 1.0%

The Consumer Price Index (CPI) rose 1.0% on a year-over-year basis in November after rising 0.7% in October. On a seasonally adjusted monthly basis the CPI rose 0.3% in November after rising by the same percentage in October. Prices rose year over year for six of the eight major components. Statistics Canada noted that restrictions encouraging Canadians to stay home may have contributed to an increase in spending on big-ticket items for the home. Mortgage costs are falling and gasoline prices remain low. Regionally, prices rose in all provinces. The homeowners' replacement cost index, which is derived from the price of new homes, rose 1.1% in November, the ninth consecutive monthly increase. Despite the increase, economists expect inflation to remain below the Bank of Canada's (BoC's) target of 2%. Economists noted that despite the rebound, prices have a long way to go to recover. For the year, the Conference Board now expects consumer prices to rise just 1.1%.

GDP rises 0.4%

GDP grew 0.4% in October and early estimates suggest that growth continued in November, according to Statistics Canada. October's increase marked the sixth consecutive month of growth and was slightly above analysts' estimates. Both goods-producing and services-producing sectors were up overall in October, but many sectors were affected by public health restrictions being reimposed in order to attempt to contain surging pandemic cases. Manufacturing was a drag on the economy, dropping 0.8% after five months of growth. Dining and lodging remain the hardest hit sectors, 31% and 44% below their February levels. While the gain in GDP was small, analysts said it was a good indication that the economy is able to keep churning ahead.

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Interest Rates Hold Steady at 0.25%

The Bank of Canada (BoC) says it will hold key interest rates at 0.25% until economic slack is absorbed so their target of 2% inflation can be achieved and sustained. They will also maintain their quantitative easing program by continuing to buy about $4 billion in bonds every week to try and further reduce interest rates. The BoC also announced they could potentially drop the benchmark rate below its current setting, but emphasized they remain “deeply skeptical” of negative interest rates. The senior deputy governor of the BoC, Carolyn Wilkins, left after nearly 20 years with the institution. A search is underway to find her successor as the bank’s second in command.

Housing and Construction News

The annual pace of housing starts rose 14.4% in November to a seasonally adjusted annual rate of 246,033 after rising 35% in October**.** After two consecutive months of declines, multifamily starts picked up and single-family construction remains strong. Canada Mortgage and Housing Corp expects housing starts to remain elevated through next year, as issuance of permits has remained strong and mortgage rates are low.

Canada’s home sales slipped 1.6% from October to November, reflecting fewer transactions in about 60% of all local markets, especially in large markets, including Toronto, Vancouver, Montreal and Ottawa. Sales were up 32.1% from November 2019, the same year-over-year increase as in October. More than 500,000 homes have changed hands this year, up 10.5% from the first 11 months of 2019. Despite the fact that inventory is at a historic low of just 2.4 months’ supply, 2020 is on track to be a record year for home sales in Canada. Year-over-year prices are up in double-digits for most areas. Mortgage rates are expected to remain low.

Canada’s average home price is expected to jump 9% next year, according to the Canadian Real Estate Association (CREA). They predict the pace of sales will slow, rising 7% to 584,000 units. CREA also expects the average selling price to reach $620,400 in 2021 compared with an estimated $568,000 this year. Canadians used to turn to areas outside the major metros to find more affordable homes, but now are driving away from the cities in order to escape CV19, which is driving up prices everywhere. Prices next year are expected to climb in every province.

Mortgage Rates Fall Below 1%

Lenders are now offering five-year variable rate mortgages of 0.99% for the first time in Canadian history even though news analysts have warned mortgage rates could soon increase. Unlike US homebuyers, Canadians have traditionally favored variable rate mortgages.

Retail Sales Rise 0.4%

Retail sales rose 0.4% in October after rising 1.1% in September, the sixth consecutive monthly increase since the record decline in April. Core retail sales, which exclude gasoline stations and motor vehicle and parts dealers, rose 0.3% as sales rose in several home-related categories, including building materials and garden equipment and supply dealers, where sales were up 2.9%. Retail sales were up in 6 of 11 subsectors, representing 50.9% of retail trade, down from 93.2% in September. In volume terms, sales were up 1.1% in September. Sales were up in six provinces, but fell in Ontario and New Brunswick, most likely due to more stringent measures to combat the spread of CV19. Note: Canadian retail sales do not include spending on food services.

Retail Ecommerce Sales

On an unadjusted basis, retail ecommerce sales reached $3.1 billion in October, accounting for 5.2% of total retail trade. The share of ecommerce sales out of total retail sales fell 0.3% from September, but was up 1.8% year over year. Retail ecommerce sales were up by two-thirds (+67.7%) year over year in October, while total unadjusted retail sales increased 9.1%. When adjusted for basic seasonal effects, retail ecommerce declined 5.0%.

MARKET TRENDS

Construction Forecasts for 2021

Dodge expects a slow road to recovery in 2021, with the economy remaining in slow-growth mode for at least the first three months. Dodge reports a 14% decline in the dollar value of construction starts in 2020, with an expected rebound of 4% in 2021.

Dodge estimates that total residential starts will rise 5% in 2021, after dropping 2% in 2020. They expect single-family starts to rise 7% to $254 billion in 2021 after increasing 4% in 2020, one of the few markets Dodge tracks that rose in 2020. Dodge analysts say that lower mortgage rates plus the trend to working remotely are encouraging people to leave high-density, high-cost urban and urban fringe areas and move to more ex-urban and rural areas.

NAHB estimates a 3% increase in single-family starts in 2021 and a 2% rise in 2022. NAHB expects multifamily starts to drop 2% in 2020 and plummet 15% in 2021.

Construct Connect Chief Economist Alex Carrick says he is now feeling more optimistic about the outlook for some construction sectors, particularly residential housing, which is booming in both the US and Canada. He noted that the US savings rate has nearly doubled, from a pre-pandemic 8% to 15%, which means more people have been able to more quickly accumulate money for a downpayment or a move. In addition, after decades of dropping mobility, Americans are on the move again, seeking out single-family homes in the suburbs and beyond and trying to take advantage of historically low interest rates.

Aging Homes, Migrating Millennials

More than 50 million homes in the US are more than two decades old, according to a report in National Real Estate Investor (NREI). Millennials, now the largest segment of the US population, are migrating to suburban living. NREI commented favorably on The Home Depot's acquisition of HD Supply and noted that the shift to the suburbs and beyond will probably create a multi-year cycle of increased deal making in the home improvement sector, which should continue booming as homeowners embark on bathroom and kitchen remodels and other large projects in addition to the maintenance and face-lifts required by aging structures. In addition, many people are remodeling homes to accommodate working remotely and schooling from home.

The Future of the Single-Family Home

The single-family home became the American Dream after World War I, when President Herbert Hoover introduced the "Own Your Own Home" program. Today, except for the wealthiest Americans, their home is the average family's single largest investment.

NAHB's third quarter Home Building Geography Index (HBGI) revealed that home buying preferences are shifting. Telecommuting necessitated by the CV19 pandemic is providing consumers with the flexibility to live further out within large metros or even to relocate to more affordable, smaller metro areas. That trend has been accelerating for several months.

Suburbs of medium-sized cities posted the greatest single-family gains in the third quarter, with a 15% growth rate over the last four quarters. The worst performing regions were large metro urban cores, with just a 5.7% gain. Similar results were observed in multifamily, with large metro core areas posting a 4% decline for apartment construction.

The growing demand in lower density markets stems from the fact that housing is less expensive compared to urban areas and buyers can afford larger homes to accommodate home offices, exercise rooms and other specialty rooms, all in higher demand since the pandemic, according to NAHB Chairman Chuck Fowke, a custom home builder from Tampa, Florida.

Multigenerational living is also on the rise, undoubtedly boosted by the pandemic. Generations living together can share household chores, childcare and create their own pandemic "bubble" to combat loneliness. In 2018 the US had the highest rate of multigenerational living since 1950, driven by young adults living with their parents in order to save enough money to get a place of their own. The pandemic has boosted multigenerational living even further.

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The trend to remote working and multi-generational living has also popularized accessory dwelling units (ADUs), such as back-yard cottages and converted garages, as well as in-home renovations such as in-law suites, home offices and school/activity rooms. Today average family size is just 3.14 people, and nearly one-third of Americans live alone.

The Virtual Office is Here to Stay

Home offices and working remotely may be here to stay, with many companies now exploring hybrid models or offering some workers the option to continue working remotely. Companies save money and employee productivity has gone up, with many employees reporting that in addition to being more productive, they are happier. They don't waste time chit-chatting, avoid interruptions and don't get involved in office politics.

Employees also report working remotely is like getting a raise, because they have no commuting costs, don't have to eat meals out and are not tempted to shop or go out after work. In addition, in a virtual meeting everyone is "equal," taking up the same amount of cyberspace and having an equal ability to be seen and heard.

Some business analysts caution that companies will have to work harder to encourage collaboration and the free exchange of ideas in a virtual world that does not allow for casual conversations. Others note that one of the unexpected benefits of being forced to go virtual has been their ability to include more people in meetings and brainstorms and reach out to experts around the world they might not have been able to connect with previously. In a recent survey reported in *The Washington Post,* roughly 70% of companies now expect to downsize their office space.

Lumber Prices and Tariffs

Lumber prices hit an historic peak in September 2020, with the composite price of random lengths of framing lumber hitting $950 per thousand board feet, up from $350 in mid-April. Prices fell back to around $550 in mid-November, then started to rise again, hitting $750 the week before Christmas. The National Association of Home Builders (NAHB) worked with 100 lawmakers to appeal to President Trump to address the high tariff on softwood lumber shipments to the US from Canada. At the end of December the Commerce Department reduced duties from more than 20% percent to 9%. Tariffs have contributed to unprecedented price volatility in the lumber market in 2020, leading to upward pressure on prices and reducing housing affordability for American consumers. NAHB noted that the US needs to work with Canada to end the tariffs and achieve a long-term, stable solution in lumber trade that provides for a consistent and fairly priced supply of lumber.

The Pandemic Recession

The Great Recession that began in 2008 devastated the finances of millions of Americans, sent the stock market into a tailspin it took two years to recover from and was followed by a long and uneven recovery. But since the pandemic began in March 2020, Americans have paid down credit card debt, saved more and seen their household net worth jump to record highs, fueled by a booming stock market and climbing prices for both new and existing homes, according to an analysis by *The Wall Street Journal.*

Economists believe that the impacts of the Great Recession were prolonged in part by the slow and limited government response. Lessons learned in 2008 were quickly applied this time around, with a $2 trillion stimulus package rolling out in March, including stimulus checks for most Americans, extra unemployment benefits and aid targeted at businesses which helped them stay solvent and keep people on the payroll. Mortgage forbearance staved off foreclosures and helped head off a 2008-style housing bust.

Banks and lending institutions were blamed in large part for the 2008 crisis; this time around they worked hard to be seen as the good guys and waived fees, helped borrowers pause debt payments and otherwise tried to help keep people and businesses on their feet. One reason they could do that is that tough regulations imposed after the 2008 debacle insured that financial institutions had robust reserves and were in a position to help.

Consumers burned in 2008 have been doing a better job of managing their finances as well, saving money, paying down debt and increasing their credit scores. Americans were also much more careful and prudent about how they spent stimulus checks, mainly using them for everyday items, necessary bills and home improvements. Consumer spending actually fell the most in some of the wealthiest neighborhoods. Analysts speculate that a large percentage of white collar workers stayed home and were able to work remotely. Therefore, they spent less than they would have normally on commuting, work attire and meals. In addition, business and personal travel and entertainment ground to a halt.

Nonbanks Enter Lending Arena

The FDIC approved a final rule that will allow major businesses to seek banking charters without having to meet the capital and liquidity demands that dedicated financial firms must adhere to. Industrial loan charters were originally created to let commercial firms make small loans to workers who were underserved by commercial banks but have now evolved into big-time banking. The ruling means Walmart, Amazon and Facebook could soon be lending out money. Meanwhile bankers have formed an alliance with Democratic lawmakers and consumer groups and asked for a halt in approving new charters until Congress can close the loopholes that give these companies what the banking industry views as an unfair advantage.

Subscription Programs Popular

Gordon Haskett recently surveyed 500 households, and was surprised to discover that 30% of respondents had signed up for Walmart+, and nearly 7% of those surveyed were very satisfied, with another 27% satisfied. Same-day grocery delivery was the most-used benefit, good news for Walmart, because it's an area where Walmart outshines Amazon. Survey respondents who did not have Walmart+ gave having an Amazon Prime subscription as the number one reason why, with more than 36% saying they didn't need it because of their Prime membership. Another 20% thought it was too expensive, and 7% were waiting for Walmart to add more perks and remove the free-shipping minimum. Analysts noted that the growing number of subscription programs will eventually force consumers to evaluate what they really use and what's worth the price of the subscription. It also remains to be seen how much store-avoidance behavior that has developed during the pandemic will become the norm after life returns to normal.

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