News from the Month of December 2022 | **EDITION 1/ 2023**

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Bosch | Dremel
RotoZip | Vermont American
CST/berger | freud | Sia

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US ECONOMY

Exchange Rates December 30, 2022

Euro	1 Euro = $1.069	$1.00 = 0.935 Euros
Canadian Dollar	1 CAD = $0.739	$1.00 = 1.353 CAD
Japanese Yen	1 Yen = $0.008	$1.00 = 131.818 Yen
Chinese Yuan	1 Yuan = $0.145	$1.00 = 6.898 Yuan
Mexican Peso	1 Peso = $0.051	$1.00 = 19.502 Pesos

Market Watch December 30, 2022

DOW	33,147	-8.8%	FY22
NASDAQ	10,466	-33.1%	FY22
S&P 500	3,840	-19.4%	FY22

Stocks floundered in December and Santa Claus gave way to the Grinch as the markets turned in their worst year in a decade after three years of gains. The bear market was led by a dismal performance by the tech-heavy Nasdaq. Market watchers are hoping for a mild recession in the first half of 2023 that will encourage the Fed to begin cutting interest rates and spur a market rally in the second half.

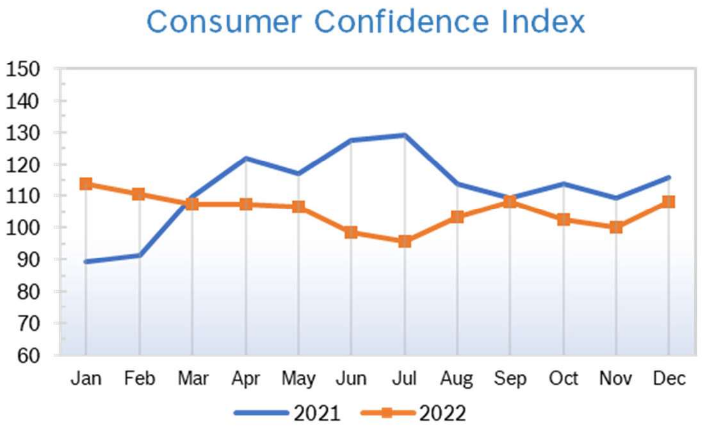
Consumer Spending Rises 0.1%

Consumer spending edged up 0.1% in November and spending for October was revised up from 0.8% to 0.9%. Economists had forecast consumer spending would rise 0.2% in November. Some of the moderation in spending last month reflected a shift of demand from goods to services. Slowing price increases for some goods also lowered the dollar amount of consumer spending. Spending on goods fell 1.0%, led by declines in purchases of motor vehicles and falling gas prices. Outlays on services increased 0.7%, lifted by housing and utilities as well as financial services and insurance.

Consumer Prices Rise 0.1%

The Consumer Price Index (CPI) rose just 0.1% in November after rising 0.4% in October and 0.6% in September and was up 7.1% year over year after being up 7.7% year over year in October. Core inflation, which excludes the volatile food and energy categories, rose 0.2% in November after rising 0.3% in October and 0.6% in September and was up 6.0% year over year. It was the smallest monthly increase in core inflation since August 2021. Both numbers were well below expectations. Gas prices are coming down but food and rents are still on the rise. Personal income rose 0.4% in November after jumping 0.7% in October. The saving rate rose to 2.4% in November from 2.2% in October. The saving rate was as high as 26.3% in March 2021. It is now near levels seen during the 2007-09 Great Recession. Core PCE rose 0.2% after increasing 0.3% in October and was up 4.7% from November 2021, down from 5% in October and the smallest increase since October 2021.

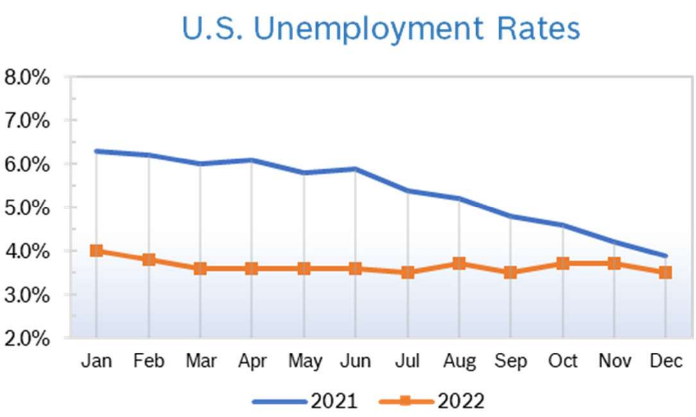
Consumer Confidence Rises to 108.3



- The New York-based Conference Board's Consumer Confidence Index rose to 108.3 in December after falling in both November and October.*
- The Present Situation Index rose to 147.2 in December after falling to 137.4 in November.
- The Expectations Index, based on short-term outlooks for income, business and labor market conditions, rose to 82.4 in December after falling to 75.4 in November. A level around 80 indicates consumers expect a recession.
- 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 Falls to 3.5%



- The unemployment rate fell to 3.5% in December after holding steady at 3.7% in November. Unemployment was 3.5% at the beginning of the pandemic in March 2020.
- The economy added 223,000 new jobs* slightly ahead of expectations of 200,000, after job numbers for both November and October were revised downward slightly.
- Wage growth slowed while the job market remained tight, regarded as an encouraging sign that the economy might cool down without plunging into a recession.
- Average hourly earnings rose 0.3% in December after rising 0.5% in November and growth slowed to 4.6% year over year.
- The Fed's next meeting is January 31 through February 1. Analysts say odds are increasing they may hike rates just 25 basis points after a series of half-point hikes. Wells Fargo still expects rates to top out at 5.0% to 5.25% and remain elevated through the remainder of the year.

Chicago PMI Rises to 44.9

The Chicago PMI rebounded in December and rose more than seven points to 44.9 after dropping sharply to 37.2 in November. The increase was greater than expected but still left the index below the level that signifies expansion. Economists had expected the PMI to rise into the 40+ 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 0.3%

The Producer Price Index (PPI) rose 0.3% in November after rising an upwardly revised 0.3% in October, slightly above the estimate of a 0.2% increase. Stripping out volatile food and energy prices, core PPI rose 0.4% from October and was up 7.4% year over year in November, down from the revised 6.8% increase in October. The PPI peaked at a whopping 11.7% year-over-year increase in March.

Q3 GDP Rises 3.2%

Q3 GDP rose an upwardly revised 3.2%, according to the third and final 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. 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.

Fed Raises Rates 0.5%

The Fed raised interest rates by 0.5% in mid-December to a range of 4.25% to 4.5%, the highest level since 2007. Comments by Fed Chair Jerome Powell suggested that rate hikes would continue in 2023 as part of their efforts to return inflation to their target of around 2%. The 0.5% increase was a slowdown from the four consecutive 0.75% increases that preceded it. The Fed has now raised rates by a total of 4.25% this year.

HOUSING & CONSTRUCTION

Builder Confidence Falls to 31

Builder confidence fell two points to 31 in December after falling to 33 in November, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). It was the 12th 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 fifth consecutive month and was the lowest confidence reading since 2012 with the exception of the onset of the pandemic in 2020. NAHB's latest survey showed that 62% of builders are using incentives to bolster sales, including providing mortgage rate buy-downs, paying points for buyers and offering price reductions. But with construction costs up more than 30% since inflation began to take off at the beginning of the year, there is little room for builders to cut prices. Only 35% of builders reduced homes prices in December, edging down from 36% in November. The average price reduction was 8%, up from 5% to 6% earlier in the year. 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 11.2%

Overall building permits fell 11.2% in November to a 1.43 million unit annualized pace after falling to 1.53 million units in October. Single-family permits fell 7.1% in October to 781,000 units after falling 3.6% to 839,000 units in October. It was the eighth consecutive month single-family permits declined. Multifamily permits dropped 16.4% to an annualized pace of 561,000 units after rising to 692,000 units in October. Permits were down year to date in all regions.

Housing Starts Fall 0.5%

Housing starts fell 0.5% in November to a seasonally adjusted annual rate of 1.43 million units after falling to 1.44 million units in October. Single-family starts fell 4.1% to 828,000 units after falling to 855,000 units in October. Single-family starts were down 9.4% year to date and 32% since February when rates began to rise. Multifamily starts rose 4.9% to 599,000 units after dropping to 570,000 units in October. Multifamily starts are at a 50-year high but permits are dropping. Regional starts were mixed.

New Home Sales Rise 5.8%

New home sales rose 5.8% in November to a seasonally adjusted annual rate of 640,000 new homes after rising to 632,000 new homes in October. Sales were down 15.2% from November 2021. In November 2021, 13% of new home sales were priced below $300,000. That share has now fallen to 7%. New single-family home inventory remained elevated at an 8.6 months' supply; a 6 months' supply is considered balanced. The number of new homes available for sale rose 18.2% to 461,000 from November 2021. A year ago, there were just 32,000 completed, ready to occupy homes available for sale. 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 7.7%

Existing home sales fell 7.7% in November to a seasonally adjusted annual rate of 4.09 million units after falling to 4.43 million units in October**,** according to the National Association of Realtors. It was the tenth consecutive month existing home sales fell. Sales were down 35.4% from November 2021. The inventory of unsold existing homes declined for the fourth consecutive month, falling to 1.14 million homes, a 3.3 months' supply at the current sales pace, up from 2.1 months in November 2021. The median existing house price increased 3.4% from November 2021 to $370,700.That marked 129 consecutive months of year-over-year home price increases, the longest such streak on record. However, the rate of increase is definitely slowing down. Properties remained on the market for an average of 24 days in November, up from 21 days in October. Sales were down in all regions.

Regional Housing Data

	Northeast	**South**	**Midwest**	**West**
Builder Confidence	37 (-5)	36 (-6)	34 (-4)	26 (-3)
Building Permits YTD	-5.6%	-0.6%	-0.5%	-6.5%
Housing Starts Y/Y	1.3%	0.6%	0.8%	-7.1%
New Home Sales*	-3.6%	-13.1%	-22.3%	-19.3%
Existing Home Sales*	-7.0%	-7.1%	-5.6%	-12.5%

* Year over Year

Mortgage Rates Fall to 6.4%

- 30-year fixed-rate mortgages fell to 6.4% at the end of December after falling to 6.8% at the end of November. Mortgage rates were 3.1% at the end of December 2021.
- Mortgage interest rates have more than doubled over the past year.
- Falling rates have encouraged fence sitters to enter the market once again.

POWER TOOL INDUSTRY

Robert Bosch Tool Corporation

Christoph Kilian, age 49, became the newest member of the Bosch Power Tools Board of Management on January 1, 2023. He will be responsible for the worldwide marketing activities as well as the strategic focus topic “User Experience”. In addition, Kilian will be in charge of the accessories business on a corporate level, a business he has already been responsible for as Senior Vice President since 2019. Kilian joined BSH Hausgeräte GmbH in 2000, following his Business Administration studies and after a position at a management consulting firm. At BSH, Kilian worked in several management positions until 2019, with his last position as Chief Brand Officer for Siemens Home Appliances.

Bosch will beat revenue forecasts and earn more than 87 billion euros ($92 billion) in revenues in 2022, according to deputy chief executive Christian Fischer. He added that Bosch would rethink their strategy in view of the geopolitical crises facing the world, including increasing their exposure to India in order to better hedge against risks from China, where the firm earns a fifth of its turnover. Exposure to China would not be reduced. Fischer noted that revenues from India exceeded 2 billion euros a year, with growth exceeding 30% in both of the past two years.

RETAIL

Retail Sales Fall 0.6%

Retail sales fell 0.6% in November after rising 1.3% in October. It was the biggest decline in retail sales in 11 months and was largely due to falling automobile sales, which are sensitive to rising interest rates. Sales fell 2.5% at home centers and also fell at department stores, online retailers and outlets that sell clothing, home furnishings and recreational items. Shoppers spent less on holiday categories including electronics, clothing, and sporting goods, both online and at department stores. They spent more on everyday staples such as food and at health-care stores, but also on restaurant meals. Unlike many government reports, retail sales aren't adjusted for inflation and can reflect price differences in addition to purchase totals so are impacted by rising prices. Core retail sales, which exclude automobiles, gasoline, building materials and food services, dropped 0.2% after rising a downwardly revised 0.75% in October. 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

From the Goldman Sachs Retail Conference:

Pro and DIY customers are very engaged in the home. The Pro backlog remains very healthy, and that's what they saw in Q2.

They saw positive comps with both Pro customers and DIY customers, and CEO Ted Decker thinks that is due to the somewhat unique customer base THD has.

THD's customers tend to be homeowners with strong income levels sitting on an incredible increase in the value of their homes. Homes are the principal asset that home improvement is focused on.

THD believes home values overall have gone up $8 to $9 trillion over the last 2 years. While that growth in value has slowed somewhat in recent periods, home appreciation is still up 8% year-over-year.

In addition, people have been spending more time in their homes, which also supports demand. Despite all the work done during the pandemic, no one is ever done with their home project to-do list.

Aging housing stock ensures an ongoing need for maintenance, repairs and updating. Even as people transition back to the office, many companies are adopting hybrid working models, which means people need a permanent workspace at home. That need can also drive a major remodel. During the pandemic there was a huge spike in improving the outdoor space. Now there is more emphasis on inside projects.

Their seasonal business underperformed, most likely because so many projects were done during the pandemic that the comparisons were tough.

They believe their total addressable market is about $900 billion, also about 50/50 Pro and consumer. The Pro has always been very important to THD. They believe that if they satisfy the Pro with the brands, the pricing and the inventory availability they need, the consumer will piggyback on that. So they've always focused on the Pro piece of the business.

They tend to do much better with smaller Pros who buy virtually everything needed for a project from THD. With larger Pros they have been more of an infill/emergency supplier. To get the larger share of wallet, or what they call the Pro planned purchase for those larger Pros, they need to build up a series of capabilities to satisfy that Pro.

Big Pros want a point of contact, logistics support and ways to expedite their orders. They require that THD be able to provide on-time and complete delivery to the job site. In order to meet those expectations, THD is beefing up all their large Pro capabilities and building out their One Supply Chain. They also need to expand assortments to better serve larger Pros.

Pros often demand delivery from flatbed facilities. That can be logistically challenging. Just the process of building and packaging an order can make the Pro's life much more productive.

Bulk and flatbed distribution centers also help take activity out of the store and make store personnel more available to customers. They noted that it is very inefficient to ship product to a store, stage it on shelf for retail and then clog up the aisles taking it back down again, packaging it, putting it back on an 18-wheeler truck and delivering it to a job site. Plus they would often have to go to multiple stores to fill a Pro order. Now they can load up the night before and ship out early in the morning.

They have a deep understanding of virtually all the cost components of every product that they sell. They tear down products and have labs around the globe that look at commodities and parts and pieces of virtually everything they sell. They analyze all costs, including labor and energy, and manage accordingly with their suppliers.

They pride themselves in being an everyday value retailer for the majority of their business, which allows them to be the value leader. They participate in promotions in specific categories that are traditionally promotionally-driven, such as appliances. They now have 100% of their appliance delivery volume managed through their market delivery operations, which has really improved the customer experience.

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, tubs and showers and cabinets.

On-time and complete deliveries have increased meaningfully, 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.

Other News:

THD landed on several investment firms and analysts best investment bets for 2023 list. Analysts noted that Home Depot delivers best-in-class retail execution with leading Pro share that should help them weather a challenging macro climate in 2023. THD is expected to further consolidate market share as they expand their share of the Pro market with their flatbed distribution centers and improved inventory programs for Pro.

Walmart

Walmart introduced their latest digital shopping tool, called TrendGetter, which enables image-based search and suggestions from Walmart's extensive inventory. Walmart says the technology will allow customers to find lower-priced options as well as make sure they're getting the lowest possible price, which Walmart assumes will be the Walmart price.

Amazon

Amazon is offering $2 dollars per month to a select group of users who choose to participate in the company's invite-only ad verification program, according to a *Business Insider* article. Amazon will track what ads participants see as well as where and when they see them. They're looking to better hone their ad personalization and ensure that ads more closely reflect previous purchases. The program is being launched as an add-on to the Amazon Shopper Panel, which pays participants $10 per month for uploading 10 receipts of purchases made at non-Amazon retailers.

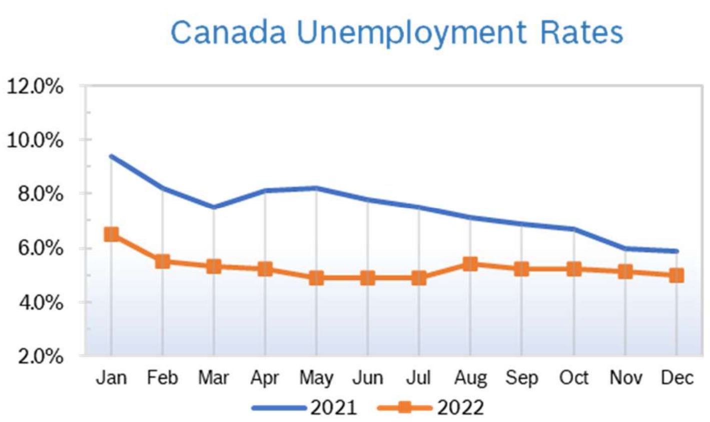
Over the last year, Amazon made almost $36 billion dollars from advertising versus just over $34 billion from all of its subscription programs combined, including its hallmark service, Amazon Prime.

Amazon Prime customers must be very thankful for their overworked drivers; a program that promised drivers would get a $5 tip from Alexa if people simply told her to thank their driver hit its $1 million cap in just a few hours.

Amazon is rolling out Inspire to select customers. Inspire allows people to tap on a video or photo and quickly see colors, options, reviews and prices. They can choose from more than 20 different interests, such as gaming, pets or make-up, to personalize their feed. As the feature rolls out in the coming months Amazon plans to add more shoppable content, with a focus on more immersive shopping experiences tailored to people's interests.

CANADA SNAPSHOT

Unemployment Falls to 5.0%



- The unemployment rate fell to 5.0% in December after falling to 5.1% in November, just above the record low of 4.9% reached in June and July 2022. In January 2021 unemployment peaked at 9.4%.
- Employment rose by 104,000 jobs in December after rising by just 10,000 jobs in November. Much of the gain was concentrated in the private sector.
- Employment rose in several industries, including construction and warehousing.
- Employment increased in Ontario, Alberta, British Columbia, Manitoba, Newfoundland, Labrador and Saskatchewan in December. There was little change in the other provinces.
- Year-over-year wage growth remained above 5% for the seventh consecutive month. Wage growth needs to cool in order to tamp down inflation.

Consumer Prices Rise 6.8%

Canada's inflation rate dipped to 6.8% in November after holding at 6.9% for the previous two months. Falling prices for gasoline and furniture were partially offset by faster growth in mortgage interest rates and rent. On a monthly basis, the CPI rose 0.1% in November following a 0.7% gain in October. On a seasonally adjusted monthly basis, the CPI was up 0.4%.The homeowners' replacement cost index, which is related to the price of new homes, slowed again in November, reflecting falling prices. This index has decelerated, on a year-over-year basis, every month since May 2022 when it rose 11.1%.

Bank of Canada Raises Interest Rates

The BoC raised interest rates by 50 basis points to 4.25% in early December, but signaled that the tightening that saw rates increase by a full 4% in just nine months to the highest level in fifteen years was nearing an end. However, they noted that inflation was still too high and did not give any indication they planned to begin easing rates in the near future.

Housing and Construction News

Housing starts fell 0.2% in November to a seasonally adjusted annualized rate of 264,159 units, according to Canada Mortgage and Housing Corp. (CMHC). The decrease was less than expected. Analysts are still forecasting that starts will drop in 2023 as interest rates continue to rise and depress the rate of homebuilding. The six-month moving average of the monthly seasonally adjusted annual rate of housing starts fell 1% in November to 274,361 units. Urban multifamily starts rose 2% but single-detached units fell 7% in November after falling 11% in October.

Canadian home sales fell 3.3% in November after inching up for the first time in seven months in October, according to the Canadian Real Estate Association (CREA). The drop came as the number of newly listed homes fell 1.3% on a month-over-month basis in November. Home sales and prices fell in 2023 as rising interest rates increased the cost of borrowing for Canadian consumers. Home sales were down 38.9% compared to November 2021. The actual national average home price fell 12% year over year in November to $632,802. Market analysts say that home prices could drop another 12% in 2023.

Retail Sales Rise 1.4%

Retail sales increased 1.4% to $62.0 billion in October after falling 0.5% in September. It was the largest increase in five months. Sales were up in 6 out of 11 subsectors, representing 84.4% of retail trade. The increase was led by higher sales at gasoline stations (+6.8%) and food and beverage stores (+2.2%). Core retail sales, which exclude gasoline stations and motor vehicle and parts dealers, increased 0.9%. In volume terms, retail sales were unchanged in October. Retail sales increased in nine provinces, led by a 2.6% increase in sales in Quebec and a 4.9% increase in metropolitan Montreal. Sales fell 0.3% in Ontario.

Retail Ecommerce Sales Fall 4.6%

On a seasonally adjusted basis, retail ecommerce sales were down 4.6% in October after falling 5.4% in September. On an unadjusted basis, retail ecommerce sales were down 3.6% year over year to $3.4 billion in October, accounting for 5.2% of total retail trade. The share of ecommerce sales to total retail sales fell 0.5% compared with October 2021.

GDP Rises 0.1% in October

Canada's GDP edged up 0.1% in October, beating analysts' estimates. Growth in service industries was partially offset by declines in goods-producing industries. Growth for September was revised up to 0.2%. Initial estimates from Statistics Canada indicate GDP remained steady in November.

Inflation Slows to 6.8% in November

The consumer price index was up 6.8% from November 2021, down from year-over-year increases of 6.9% in September and October, as the cost of gasoline and furniture fell. Grocery prices, rent and mortgage costs continued to exert the most upward pressure on the broader cost of living. Core inflation remained little changed at 5%, still well above the Bank of Canada's (BoC) target of 2% but is down significantly from 8.1% in June. Analysts expect the BoC to raise interest rates again in January.

MARKET TRENDS

Holiday Spending Recap and Forecasts

US retail sales increased 7.6% during the period of November 1 to December 24, compared to the same time last year, according to the Mastercard Spending Pulse, released Monday. The index tracks in-store and online retail sales, excluding automotive sales, across all forms of payment and is not adjusted for inflation. According to Mastercard, consumers diversified their spending to cope with higher prices and prioritized dining out and other experiences. Restaurant sales grew more than 15% compared to the same period last year.

American shoppers also displayed a growing preference for shopping online, with online sales growing 10.6% year over year and ecommerce making up 21.6% of total retail sales, up from 20.9% in 2021.

2023 Economic Outlook

2023 will be a year of trade-offs, requiring consumers, businesses and policymakers to be flexible. Forecasts for 2023 have been changing almost as quickly as they make it into print. How everyone deals with those trade-offs will determine how the economy actually performs in 2023. Here are the latest projections and scenarios for the US economy from Wells Fargo, Goldman Sachs, the National Association of Realtors, The National Association of Home Builders, and a host of analysts.

Inflation Cools Off But Remains Too High

Although there was some cooling in November, inflation remains at the highest rate in decades despite seven successive increases in interest rates from the Fed. Now the Fed has signaled they need to raise rates further to ensure that inflation recedes back toward their target rate of 2%. However, too much tightening could backfire and push he economy into a recession.

Recession or Soft Landing? Some analysts believe a soft landing that would avoid a recession is still possible; others believe a modest recession that would begin mid-year is almost inevitable. Fannie Mae is forecasting a modest recession in 2023, with GDP dropping 0.5%, followed by a rebound to 2.2% GDP growth in 2024.

There are some signs that the forces pushing up prices are easing. Supply chains are functioning much more smoothly, delivery times have dropped, and the Producer Price Index, transportation and warehousing costs have been declining since August. However, services prices remain high and shelter inflation is unlikely to start declining until mid-year.

Wells Fargo expects core PCE inflation to slow to around a 3% annualized rate in the middle of 2023 and to about 2.5% in the fourth quarter of next year, which would be a big improvement over the current pace of 5%, although still over the 2% target.

Interest Rates to Rise and Remain High

Tough talk or painful actions? Opinions are mixed as to whether the Fed is talking tough but will do their best to avoid a recession or is resigned to the fact that achieving their long-term objective of a stable economy will inflict some short-term pain. With the job market remaining very strong and consumers continuing to spend, the Fed insists they are willing to trade higher unemployment for lower inflation and more market volatility.

It's quite the change from early 2022, when inflation was deemed too low. Remarks accompanying the latest rate increase indicate the Fed is anticipating a top rate of 5.25%, which is higher than the target rate high of 4.75% forecast in mid-September and would point to another three-quarters of a percent increase this year. There is no longer any expectation the Fed will begin to cut rates mid-year; analysts now expect interest rates to remain high through the end of 2023 and not begin coming down until early 2024.

Housing Market Will Contract

Single-Family Housing Market Forecast from the National Realtor's Association and NAHB:

Housing Starts Forecast: NAHB expects housing starts to fall to 0.9 million in 2023 after falling 9.6% in 2022 to 1.0 million, which had been the first decline in starts since the Great Recession in 2011. Wells Fargo expects single-family housing starts to drop nearly 10%. Starts averaged 0.8 million between 2013 and 2019.

Existing Home Sales Forecast: NAR predicts existing home sales will fall 6.8% in 2023 to 4.78 million homes after falling to 5.13 million in 2022. Fannie Mae projects just 4.0 million existing homes will be sold. The annual average between 2013 and

2019 was 5.27 million. That would make 2023 sales the lowest level since the Great Recession in 2011.

Home price appreciation zoomed double-digits during the pandemic and shortly after but rising interest rates have put monthly mortgage payments out of reach for many households. Wells Fargo forecasts that house prices will decline by about 5% on a nationwide basis this year. NAR projects a tiny 0.3% increase in 2023 to $385,800, down from a 9.6% increase in 2022 and 17.2% in 2021. Average appreciation between 2013 and 2019 was 6.4%. Some markets may see prices drop, with pricey major metros like San Francisco experiencing double-digit declines.

Mortgage Rates: The NAR projects rates will average 5.4% to 5.7% by the end of 2023 after peaking in the 7.4% range. Rates averaged 3.0% in 2021 and 4.0% between 2013 and 2019. Ultimately, the Fed's ongoing efforts to tame inflation will slow homebuyer demand for mortgages in 2023, according to the forecast.

Mortgage origination volume is expected to decline to $2.05 trillion in 2023 from the $2.26 trillion expected in 2022, according to the Mortgage Bankers Association. The forecast calls for primary mortgage volume to drop by 3% next year, while refinance volume is anticipated to decline by 24%.

Households Face Tough Choices. With home prices and mortgage rates high, many households must decide whether to stretch their budget, lower their expectations or put off buying for now and rent. Some households will choose to stay in their current home and remodel. With remote working a possibility, some consumers may choose to relocate to less-pricey areas. The choices people make will help to determine the economic outlook in many regions of the country.

Early Retirements and Aging Baby Boomers Fuel Migration. Early retirements jumped during the pandemic and the trend is expected to continue, although the effects of slowing appreciation and a bumpy stock market may slow the pace or cause some people to postpone retirement altogether. No matter what, the large number of Baby Boomers hitting retirement age will guarantee a steady flow of retirees to retirement-friendly states, such as Florida, Arizona and New Mexico. And some states are much further down the road to recovery than others; many northern industrial states like New York, Pennsylvania, Ohio and Illinois have not recovered the jobs lost during the pandemic. State economies like Florida, Texas, Arizona and North Carolina are booming so are better able to absorb any impacts of a recession.

Unemployment to Rise

The unemployment rate is now estimated to climb to 4.6% in 2023, up from an expectation of 4.4% in September, according to forecasts.

The very tight labor market has been one of the reasons the Fed has been unable to tamp down inflation. Growth in labor costs has slowed only marginally in recent months. The Employment Cost Index rose at a 5.1% annualized pace in Q3 and average hourly earnings data shows that wages shot up at an annualized rate of 5.8% between August and November.

Businesses that struggled to find qualified workers have been reluctant to let them go, so despite rising costs and falling demand it remains an employee market. Once unemployment begins to rise employers will find it easier to hire workers without having to increase wages, which will help depress inflation. Wells Fargo forecasts that the unemployment rate will trend higher over the course of 2023 and finish the year at roughly 5%.

Construction Employment Rising

After unemployment reached 14.2% in April 2020, employment in the overall construction sector has been rising steadily and unemployment has been dropping as housing demand created by the pandemic propped up the job market. Over the last 12 months, home builders and remodelers added 105,000 jobs on a net basis. Since the low point following the Great Recession, residential construction has gained 1,204,500 positions. Residential employment currently stands at 3.2 million, higher than it was in February 2020 before the pandemic. That breaks down into 903,000 builders and 2.3 million residential specialty trade contractors.

The construction industry continues to grapple with a chronic shortage of skilled labor. Many initiatives and programs are underway to convince people in high school or in dead-end jobs that construction offers many opportunities to have a secure job and make good money.

Consumer Spending Slows

With real incomes eroding and borrowing costs rising, analysts predict consumer spending will slow down by mid-year. Households have supported spending by dipping into saving and running up credit card debt. The personal saving rate is down below 3%, the lowest rate since 2005, but consumers are still sitting on more than $1 trillion in "excess savings" accumulated during the pandemic.

Credit card debit jumped 15% in the third quarter alone, with many cards now charging interest rates of more than 20% on unpaid balances. During the holidays there were already signs of trade-offs, with shoppers whittling down the number of people on their gift list and spending more on needs and less on wants.

How quickly consumers cut their spending will have a big impact on both inflation and interest rates. If everyone in the US went on a spending diet for a quarter it would trigger a series of events that would cause the economy to cool off and inflation to finally slow down.

Wells Fargo expects a 1% decline in household spending in the second half of the year, with spending on services to rise and spending on goods to fall between 3% for nondurable goods and 7% for durable goods with a net result of a 1.0% decline in household spending in the second half of the year.

GDP Projected to Grow Slightly

The Federal Reserve lowered their US economic growth forecast for 2023 and now expects the American economy to grow 0.5% next year, down from its forecast of 1.2% growth made in September. Goldman Sachs expects GDP growth of 1.1% next year, down from its prior call for 1.5% growth from the fourth quarter of 2022 to the end of 2023.

Global Economic Downturn

Central banks in many foreign economies face the same dilemma as the Federal Reserve. That is, they too need to bring down inflation from multi-decade highs, but excessive tightening could lead to recession. Like their counterparts at the Fed, analysts expect foreign central bankers to choose inflation reduction, which will push many foreign economies into recession in 2023.