

# Market Briefing

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Who's on Facebook?

Bipartisan Infrastructure Deal

Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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## US ECONOMY

### Exchange Rates June 30, 2021

<b>Euro</b>	1 Euro = \$1.185	\$1.00 = 0.844 Euros
<b>Canadian Dollar</b>	1 CAD = \$0.806	\$1.00 = 1.240 CAD
<b>Japanese Yen</b>	1 Yen = \$0.009	\$1.00 = 111.047 Yen
<b>Chinese Yuan</b>	1 Yuan = \$0.155	\$1.00 = 6.458 Yuan
<b>Mexican Peso</b>	1 Peso = \$0.050	\$1.00 = 19.924 Pesos

### Market Watch June 30, 2021

<b>DOW</b>	34,502	- 0.1%
<b>NASDAQ</b>	14,504	+5.5%
<b>S&amp;P 500</b>	4,298	+2.2%

Stocks traded in a narrow range the end of the month and all three indexes closed out the first half of the year with double-digit gains. For the month of June, solid economic data tempered concerns about inflated valuations and a more contagious variant of CV19.

### Consumer Spending Unchanged

**Consumer spending was unchanged in May** after increasing an upwardly revised 0.9% in April. Core consumer spending fell 0.4% in May after rising an upwardly revised 0.3% in April. Personal incomes fell 2.0% in May after tumbling 13.1% in April. However, wages grew 0.8% after rising 1.0% in April. Growing demand for and spending on services is being offset by a slow-down in real retail sales. Going forward, analysts expect consumer spending growth to remain strong as the services sector continues to normalize.

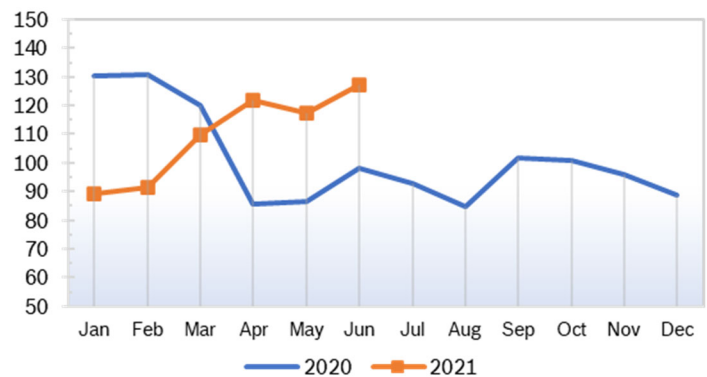
### Consumer Prices Rise 0.6%

**The Consumer Price Index (CPI) rose 0.6% in May** after rising 0.8% in April and were up 5.0% year over year. It was the biggest year-over-year jump in inflation since 2008, and far exceeded analysts' estimates. Core inflation, which excludes the volatile food and energy categories, rose 0.7% in May after jumping 0.9% in April and were up 3.8% from May 2020. Consumers are seeing higher prices in many categories, particularly in big-ticket

items such as vehicles. Airfare and other prices that were depressed during the pandemic are also up disproportionately. The personal consumption expenditures (PCE) price index excluding the volatile food and energy component rose 0.5% in May after jumping 0.7% in April and was up 3.1% year over year, the largest gain since April 1992. The core PCE price index is the Fed's preferred inflation measure for its 2% target, which is now a flexible average. The Fed remains convinced inflation is transitory and is more focused on the employment situation.

### Consumer Confidence Rises to 127.3

Consumer Confidence Index

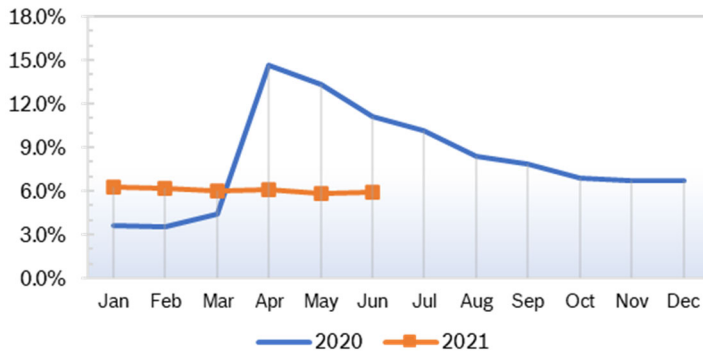


- ▶ The New York-based Conference Board's Consumer Confidence Index rose to 127.3 in June after rising to an upwardly revised 120.0 in May.\*
- ▶ The Present Situation Index, which is based on consumers' assessment of current business conditions, rose to 157.7 from an upwardly revised 148.7 in May.
- ▶ Expectations rose to 107.0 after falling to an upwardly revised 100.9 in May.
- ▶ Consumer confidence was at the highest level since March 2020, when it plummeted to 86.9 at the onset of the pandemic.

\*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 Rises to 5.9%

### U.S. Unemployment Rates



- ▶ The unemployment rate fell ticked up to 5.8% in June after slipping to 5.8% in May and the economy added 850,000 new jobs, above expectations of 700,000 jobs.\*
- ▶ Job gains for April were revised down to 269,000 and gains for May were revised up to 583,000.
- ▶ Employment continued to jump in the service sector as newly vaccinated Americans travel, eat out and go to events.
- ▶ Retail added 67,000 jobs as people freshened wardrobes and ventured out to shop in the real world.
- ▶ Construction payrolls fell for the third month, dropping by 7,000 jobs, as supply chain problems delay work and create shortages.
- ▶ There are still 6.8 million more people out of work than before the pandemic in February 2020, down from 7.6 million in May.

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

## Job Openings Jump to Record High

**US job openings jumped by nearly one million jobs to a new record high of 9.3 million** in April after setting a record in March, according to the latest Job Openings and Labor Turnover Survey (JOLTS) from the US Bureau of Labor Statistics (BLS). It was the highest number of job openings on record and up substantially from the pandemic low of under 5 million jobs. Hiring was little changed at 6.1 million from 6.0 million in April. Quits rose to a record-high 4 million in April from 3.6 million in May and layoffs and discharges fell by 81,000 to 1.4 million. The

quits rate is normally viewed by policymakers and economists as a measure of job market confidence. However, the pandemic has forced millions of women to drop out of the labor force, primarily because of problems related to childcare; the labor force participation rate among women has dropped to levels not seen since the 1970s. There were just 1.1 workers per job opening in April, down from 1.2 per job opening in March but up from just 0.8 people pre-pandemic. 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 Falls to 66.1

**The Chicago Purchasing Managers Index (Chicago PMI) fell to 66.1 in June** after rising to a nearly 50-year high of 75.2 in May. Despite the decline, it was the 12th consecutive month the index remained in positive territory. New Orders dropped to a three-month low and all the other main indicators also fell, with the exception of Supplier Deliveries, which improved. Prices Paid surged to the highest level since 1979 after falling in May. Companies noted that prices were rising due to materials shortages, and 82% said that rising prices will have a material effect on their business decisions. 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 0.8%

**The Producer Price Index rose 0.8% in May** after rising 0.6% in April. The increase was above expectations, and marked the fifth consecutive monthly increase in wholesale prices. Prices were up 6.6% from May 2020 after being up 6.2% year over year in April. Core inflation, which excludes the volatile food and energy categories, rose 0.7% for the third consecutive month and was up 5.3% year over year, the largest year-over-year gain since reporting began in 2014. Prices were driven up by substantial increases in wholesale food prices and energy, both of which are stripped out of core prices. Nearly 60% of the wholesale price increase from May reflected a 1.5% increase in prices for goods; prices for services rose 0.6%. Analysts noted that year-over-year inflation numbers will be higher going forward because of the year-over-year comparison to very low numbers caused by the pandemic as well as near-term pressures from supply chain bottlenecks.

## Q1 GDP Grows 6.4%

**GDP grew an unrevised 6.4% in the first quarter** as stimulus checks went out, vaccinations accelerated, states lifted restrictions and consumers stepped up spending, according to the third and final reading from the Commerce Department. The increase in real GDP in the first quarter reflected increases in personal consumption expenditures, nonresidential fixed investment, federal government spending, residential fixed investment and state and local government spending that were partly offset by decreases in private inventory investment and exports. The increase in first quarter GDP reflected the continued economic recovery, reopening of establishments and continued government response related to the pandemic. Economists expect growth to pick up further in the second quarter and remain steady in the second half of the year. Many forecasts call for GDP to grow between 6% and 7% this year, which would be the strongest performance since a 7.2% gain in 1984 when the economy was emerging from a deep recession. The Fed's GDP forecast for this year was revised to growth between 6.5% to 7.0% in mid-June.

## Fed Holds Rates for Now

**The Fed maintained their target fed funds rate range of between zero and 0.25% at their meeting in mid-June**, and reassured investors they will continue to support the economy via asset purchases while the US continues to recover from the pandemic. However, the Fed's latest "dot plot" economic forecast shows that 11 Fed members see no change to interest rates through at least 2022, five forecast rates will rise by 0.25% by the end of 2022 and two members forecast a 0.5% increase. All but five members now forecast at least one rate hike by the end of 2023. Analysts noted that an adjustment to rock-bottom interest rates is the next step needed for full economic recovery, and urged investors not to panic, but rather to greet the news as a natural step towards a healthy, functioning economy. Treasury Secretary Janet Yellen, a former Chairman of the Fed, said the US has been dealing with inflation and interest rates that are both currently too low for a healthy economy, and we need to get back to a more normal interest rate environment, not too hot and not too cold.

## HOUSING & CONSTRUCTION

### Builder Confidence Falls to 81

**Builder confidence fell two points to 81 in June** after holding steady in May, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). It was the lowest level for the index since August 2020, but was still the tenth consecutive month the index was above 80. While buyer demand remains strong, rising costs and lengthening delivery times for materials, particularly softwood lumber, are impacting sentiment and pushing many first-time and first-generation buyers to the sidelines. In addition, supply-side constraints are resulting in insufficient appraisals and also making it harder for builders to access construction loans. All three of the major indices declined in June, with current sales conditions falling two points to 86, the component measuring sales expectations in the next six months dropping two points to 79 and the gauge charting traffic of prospective buyers falling two points to 71. Regional scores were mixed for the seventh consecutive month. Any number over 50 indicates that more builders view the component as good than view it as poor.

### Building Permits Fall 3.0%

**Overall permits fell 3.0% in May** to a 1.68 million unit annualized pace from downwardly revised April numbers. Single-family permits fell 1.6% in May to 1.13 million units after falling to 1.15 million units in April. Multifamily permits dropped 5.8% to a 551,000 annualized pace after falling to 567,000 units in April. Regional permits were up on a year-to-date basis.

### Housing Starts Rise 3.6%

**Housing starts rose 3.6% in May** to a seasonally adjusted annual rate of 1.57 million units after numbers for April were revised downward significantly. **Single-family starts rose 4.2%** in May to a seasonally adjusted annual rate of 1.10 million units after falling to 1.09 million units in April. The multifamily sector, which includes apartment buildings and condos, rose 2.4% in May to 474,000 units from downwardly revised April numbers. Combined single-family and multifamily regional starts were up year to date compared to 2020. Single-family starts are expected to rise this year, but at a much slower pace than they did during 2020.

## New Home Sales Fall 5.9%

**New home sales fell 5.9% in May** to a seasonally adjusted annual rate of 769,000 homes after sales for April and previous months were revised downward significantly. Inventory remains low at a 5.1-month supply, with 330,000 new single-family homes for sale, 3.8% lower than May 2020. The number of new homes sold but not yet under construction is up 76% from last year, while the number of new homes sold that are completed and ready to occupy is down 33%. About 20% of builders have limited sales activity as a way to manage supply chain issues and labor availability. Year-over-year new home sales rose in all regions. NAHB cautioned that the big jumps in year-over-year sales is due to the big slowdown in sales during the initial stages of the pandemic. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

## Existing-Home Sales Fall 0.9%

**Existing-home sales fell 0.9% in May** to a seasonally adjusted annual rate of 5.80 million homes after falling to 5.85 million homes in April, according to the National Association of Realtors (NAR). It was the fourth consecutive month existing home sales have declined. Lack of inventory and falling affordability are the two biggest issues impacting sales now. Sales were up 44.6% from May 2020, when they were severely impacted by the pandemic. Total housing inventory at the end of May rose 7.0% from April to 1.23 million units but was down 20.6% from May 2020. Unsold inventory sits at a 2.5-month supply at the present sales pace, marginally up from April's 2.4-month supply but down from 4.6-months in May 2020. The median existing single-family home price was \$356,600 in May, up 24.4% from May 2020. It was the 111th monthly increase in year-over-year prices. Regional sales were mixed.

## Fannie Mae Cuts Home Sales Forecast

**Fannie Mae cut its forecast for home sales in the second and third quarters of 2021**, and now expects 6.6 million home sales in Q2 and 6.5 million in Q3, down from previous forecasts of 6.9 million and 6.7 million, respectively. Fannie Mae blamed the drop on a lack of listings and the slowing pace of construction. Supply-side factors are limiting construction and mortgage origination. Fannie Mae noted that supply constraints are likely to persist in the near term, so upward pricing pressure may not be as transitory as many of the current factors driving inflation.

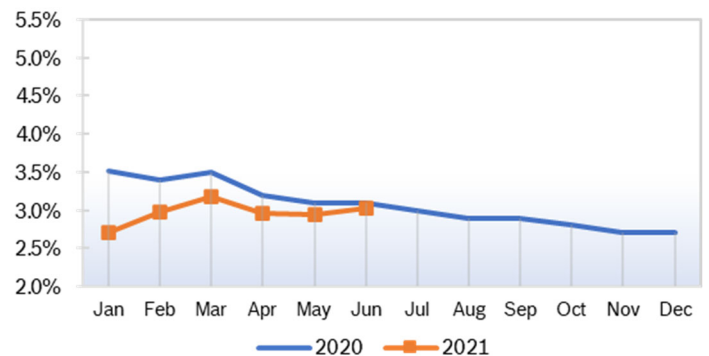
## Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence*	78 (-5)	85 (+1)	72 (-3)	90 (-1)
Building Permits YTD	43.2%	29.9%	36.2%	33.7%
Housing Starts Y/Y	46.3%	19.0%	37.2%	26.4%
New Home Sales*	+48.7%	+32.3%	+33.5%	+5.6%
Existing Home Sales*	-1.4%	-0.4%	+1.6%	-4.1%

\* Year over Year \*\*unchanged

## Mortgage Rates Rise to 3.02%

### 30-Year Fixed-Rate Mortgage



- ▶ A 30-year fixed-rate mortgage (FRM) inched above 3.0% in June from just under 3.0% at the end of May. Mortgage rates were 3.13% at the end of June 2020.
- ▶ Rising home prices driven by high demand, low inventory and soaring prices for lumber are limiting how competitive prospective home owners can be.
- ▶ It was the first time rates have been above 3.0% since early April. Fannie Mae expects rates to rise gradually in the second half of the year.
- ▶ Analysts caution that low inventories and rising home prices are making it difficult for many potential buyers to find a home.

## POWER TOOL INDUSTRY

### Robert Bosch Tool Corporation

**Bosch's North American leadership plans to invest \$360 million across their 100 North American locations.** More than \$250 million will go toward mobility solutions. They do expect on-going challenges due to industry-wide headwinds, including the semiconductor shortage. Investment will also target technology integrated into the manufacturing operations that rely on AI and the Internet of Things (IoT). These investments in AI and IoT will also help Bosch move closer toward meeting their goal of carbon neutrality.

**Bosch is opening a huge factory to produce semiconductors in Dresden, Germany,** about six months ahead of schedule in order to help with the worldwide shortage of semiconductor chips. The plant will begin supplying chips for Bosch power tools in July, and for the automotive industry in September. For Bosch, the \$1.2 billion factory is the largest single investment in the company's history, but Bosch says it is badly needed because the lack of semiconductors is creating a production bottleneck that needs to be solved. The factory is driven by artificial intelligence (AI) and even has a "digital twin," a computer animation in which employees can move around with virtual reality glasses without entering the real building. When production begins the factory will employ 250 people; once the factory is operating at full capacity it will need 700 employees. Most of the employees will be extremely well-trained semiconductor specialists.

**Chairman and Chief Executive Volkmar Denner will step down at the end of the year** after a decade at the helm in order to focus on research. He will be succeeded by Stefan Hartung, currently the head of the automotive parts business unit. Chairman Franz Fehrenbach, who has been with Bosch nearly 47 years, will also retire at the end of the year; his successor will be current finance chief Stefan Asenkerschbaumer. Bosch, which currently employs nearly 400,000 people globally, said the moves were just part of a generational change that was planned well in advance. Denner has been overseeing the transition to electric vehicles and the advent of IoT in manufacturing.

### Stanley Black & Decker

#### UBS Global Industrials and Transportation Conference:

**The Tools business is booming, up 45% organically in the first quarter.** Organic growth looks to be close to that, or a little less, in the second quarter, where they will be measured against weaker comps from Q2 2020 when they were scrambling to deal with pandemic supply chain challenges and widespread retail closures.

**It's possible that the second half of the year will be very challenging** as they will be facing very strong comps from Q3 and Q4 last year.

**When they exercise their option to acquire MTD** they will add another \$2.6 billion+ in revenue.

**They believe they are very well positioned to benefit from all the trends** that accelerated during the pandemic including a reinvigorated focus on home and garden.

**Black & Decker, a brand they have not really invested in over the past 20 years, remains a very relevant \$1 billion worldwide business.** The team has been working on revitalizing that brand for almost a year, driving it more towards youthful buyers, ecommerce and lifestyle. They believe they can double sales, turning it into a \$2 billion brand.

**DeWalt is a \$5 billion+ professional brand and the largest professional power tool brand in the world.** DeWalt is also an aspirational brand for DIYers and for tradesmen. Craftsman is a legendary brand in the US and covers four markets: construction, DIY, industrial and automotive repair. Craftsman is about a \$1 billion brand now.

**In the first half of 2020 they did lose some share and other brands gained share** at their expense, largely due to their lack of inventory compared to competitors. When the market began rebounding strongly they had much less inventory in the pipeline than some competitors, so buyers went where they could get product. But during the past three quarters they have grown the tool business \$1.8 billion and their estimates show the second quarter this year for the tool business should come in at upwards of \$1 billion.

**They currently have the capacity to have a \$7 billion second**

**half** if the demand was there, including batteries, semiconductors, production capacity, etc.

**Modest inflation makes it harder to raise prices;** when inflation is surging, people are more understanding about increases in prices.

**Power tools is an installed base game;** people get married to their battery system and stick with their brand. That's why it's a good idea to have multiple brands that appeal to different users. Right now the big players have access to battery cells, but finding enough cells is challenging for smaller players. The auto industry is also impinging on supplies.

**Some of their incredible growth in ecommerce is definitely cannibalizing sales in traditional channels** but they have many initiatives in place that will drive ecommerce sales well beyond cannibalization.

**They are using Germany as a test market for how they can go direct to the consumer in the tool business.** They are also testing that premise in Japan. Both Germany and Japan are markets where they believe they are underpenetrated. They have no plans or intentions to do any direct-to-consumer sales in North America or other major markets where they have great channel partners and a great presence.

#### Other News:

**SB&D is seeking partnerships with battery and chip manufacturers** to ease pressure on their supply chain, according to a report in the *Wall Street Journal*. Reportedly, they have a tentative partnership with a South Korean battery maker for a production line that will start manufacturing batteries in Malaysia in 2022, and are also in talks with other Asian and US businesses about potential partnerships. Of the \$500 million SB&D plans to spend on capital expenditures (CAPEX) this year, they estimate 10% to 15% will go into supply chain partnerships and other related initiatives. Prior to the pandemic they would have accounted for less than 5% of CAPEX.

**SB&D quickly made Juneteenth a paid company holiday** after President Biden signed the bill making June 19 a federal holiday to honor Freedom Day. Juneteenth, also known as Emancipation Day, celebrates the emancipation of the last enslaved people after the Civil War and is a symbolic date for ra-

cial equity for Black Americans, according to CEO Jim Loree. SB&D also made June 18 a paid company holiday this year as a "Day of Hope and Healing" to honor George Floyd and all those who have lost their lives to or been victims of violence.

**CEO Jim Loree joined the World Economic Forum as part of a virtual global panel on jobs recovery.** Topics explored included how governments support workforce development, how investments can support new job creation and policies that can help accelerate growth in the jobs of the future. Loree shared his opinions on the need for a skilled workforce to increase economic growth and help close the divisions in society that were exacerbated by the pandemic. He also discussed his views on how businesses and governments need to create comprehensive approaches that make gaining the skills needed to succeed today affordable, accessible and inclusive. The Jobs Reset Summit was a two-day event designed to mobilize the most influential leaders and organizations and get them to work together.

## RETAIL

### Retail Sales Fall 1.3%

**Retail sales fell 1.3% in May** after rising an upwardly revised 0.9% in April. Retail sales were up 28% from May 2020 when pandemic restrictions impacted sales. Analysts had expected sales to fall about 0.5%. The pivotal shift in spending from goods to services was expected, as consumers began traveling, eating out and attending events. Consumers also spent more on clothing and health and beauty products as they headed out into a world where mask-wearing was on the decline and vaccinations were on the rise. Online sales fell 0.8%, the second consecutive monthly decline, as people did more shopping in stores. The chronic shortage of both used and new vehicles limits spending in this traditionally big-ticket category. Home furnishings is one of the many categories plagued by shortages, with suppliers struggling to manufacture and deliver products. Furniture that used to arrive in six to eight weeks now takes six months. Sales at building material stores tumbled 5.9%. Core retail sales, which exclude automobiles, gasoline, building materials and food services, dropped 0.7% after a revised 0.4% fall in April. Core retail sales correspond most closely with the consumer spending component of GDP. The National Retail Feder-

ation (NRF) forecast that 2021 retail sales will rise between 6.5% and 8.2%, which would beat the previous record growth rate of 6.3% in 2004.

## The Home Depot

**Sanford Bernstein Strategic Decisions Conference:** CEO Craig Menear represented THD at the 34th annual SDC.

**There is obviously cost pressure in the marketplace** now, but cost pressure is a cyclical thing, and their merchants responsibility is to be the customer's advocate for value. They work with their suppliers to try and help them mitigate as much pressure as possible and also look for product innovation that will help them alleviate pressure and drive value.

**About 18% of their business is linked to commodities where costs change weekly.** Those cost changes flow through to retail on a weekly basis. Other than that, they don't translate costs to retail prices product by product. They take a portfolio approach and focus on driving the best value in a product.

**They believe the pandemic accelerated the trend to omni-channel by at least a few years.** They believe their customers are project-driven and will continue to blend the physical and digital worlds to complete their projects. The digital world will never replace the store; both channels are very important.

**The consistency of the business throughout all last year and into the first quarter** was truly amazing to them.

**They really don't play in the new construction market,** so have not been impacted by smaller builders moving to the sidelines because they can't get the margins they need.

**The Pro business has improved quarter by quarter** since the second quarter of 2020, with the Pro business for Q1 this year hitting the highest level since before the pandemic. It was also the first quarter since the pandemic began that the Pro business outperformed the DIY business.

**They did not do much last year to drive traffic into the store** so there was actually some benefit from less promotional activity, since many of those categories, such as lawn and garden, are lower margin.

**During the height of the pandemic, nesting categories were selling like crazy;** these are things that make homes more functional or comfortable. Now people are desperate to fly the nest, and that is coinciding with school vacation and summer.

**The services business has improved for three quarters** as people grew more comfortable having outsiders in their homes, and possibly more desperate to get some of their projects done.

**The tool rental business has been a great addition to both their Pro and DIY offerings.** The ability to rent tools and equipment enables people to tackle jobs without having to invest in expensive equipment they may not need in the long run.

**They have gotten all of their numerous private-label brands to ratings of 4+ stars,** and have multiple brands in excess of \$1 billion, as well as some in excess of \$2 billion and a few that are in excess of \$3 billion. They pursue private label in areas where they believe brand is not relevant and private label allows them to bring better value to their customer.

**Their business was built on meeting the needs of Pros;** they know that when DIYers see Pros in the stores buying certain products and brands, that gives them confidence. Many serious DIYers will aspirationally upgrade to Pro-level products.

**A lot of manufacturers have operations in China but are diversifying** into other parts of the globe. Part of that is not related to the pandemic; it's more a result of naturally rising costs inside China. Factories today are becoming more sophisticated and much more automated, even in China.

**During the back half of last year they converted much of CV19 benefits into permanent enhancements in wages and benefits,** and this year they've been able to hire more people as they ramp up for season.

**There is a tremendous amount of uncertainty about the future;** how will customers react as the economy opens back up and how will buying patterns change?

**They believe that many of the issues in the housing market are long-term and complex:** home ownership by the millennial generation, how they will engage in home improvement, how the shortage of housing in this country will impact home value appreciation, how Boomers aging in place will affect the stock of



existing homes available for sale.

**They have decided that what they can do is be flexible and well-prepared** to both respond and take advantage of opportunities as they arise.

**They are building out a network of capabilities to better serve both Pros and DIY customers.** They began this cycle of investment in 2018 and are in what Menear described as the early middle innings.

**They acquired HD Supply in order to position themselves to better serve the multifamily operators,** which control about 50 million of the 130 million occupied households in the country.

**Going forward, we will most likely not see the home value appreciation seen lately,** but as long as values go up even 1% or 2%, people feel good about investing in their homes. Their key Pro is a repair/remodeler. With affordability going down people are often buying homes that need repairs and remodeling.

#### Other News:

**The Home Depot Foundation partnered with the foundation of Rocket Companies** to renovate 61 apartments in Detroit that will be used to provide homes for some of the 162 veterans that are homeless in the area. THD has committed \$500 million to veteran causes by 2025.

## Lowe's

**CEO Marvin Ellison was named chairman of the board of directors June 1.** Ellison was appointed president, CEO and board member three years ago. He has more than 35 years of industry experience and was chairman and CEO of J.C. Penney prior to joining Lowe's. He also spent 12 years in senior-level operations with The Home Depot.

**After a strong 2020, they will focus on getting more sales from existing stores** rather than building new stores or expanding through acquisition, according to Ellison, who was speaking to attendees at their virtual shareholders meeting. They are only interested in acquisitions that would help them grow their business or better serve their customers.

**Lowe's will also look to expand the products they offer**

**online,** including categories that may not be considered core home improvement categories. Because they already deliver a lot of big, bulky items such as appliances, it is easy for them to leverage those capabilities and expand into other categories that consist of large products.

## Walmart

**Walmart's advertising revenue grew in triple-digits during the first quarter of fiscal 2022** as Walmart Connect helped brands target their advertising in stores and online by using Walmart's vast treasure trove of consumer shopping data and their technology that allows them to process that information. Walmart estimates that each week approximately 265 million customers visit stores and their website all over the world. The proprietary technology can draw connections between online and offline behavior, craft consumer profiles and even attempt to anticipate shopping patterns and gauge demand for goods. Analysts note that how Walmart handles this program will determine whether people find it helpful or intrusive and scary.

## Ace Hardware

**The third annual Ace Rewards Day,** which coincided with Amazon Prime Days, offered exclusive online deals and special offers for Ace Rewards members available exclusively online. Grills and grill accessories purchased online totaling \$399 or more were eligible for free delivery and assembly.

**Ace earned J.D. Power's highest ranking for customer satisfaction once again.** Ace ranked #1 in four of the five categories: Staff and Service, In-store Experience; Online Experience and Merchandise. Since the study launched, Ace has earned the top ranking in 14 of the past 15 years. The study is based on responses from nearly 2,172 consumers who have purchased home improvement products or services over the past 12 months. Ace had an overall satisfaction index score among major retailers of 863 on a 1000-point scale.

**According to Ace Hardware, which surveyed Ace Rewards members, a whopping 74% of dads would rather man the grill on Father's Day** than have someone else grill for them. In addition, 29% of respondents said they would buy a grill for dad (or themselves) for Father's Day, and 41% said they were ready to start hosting events and were likely to host a backyard BBQ this summer.

## Amazon

**Amazon will give corporate employees the option to return to the office three days a week** and continue to work remotely for two days. In addition, employees will be able to work up to four weeks per year fully remote from a domestic location.

**Amazon is opening their first Disaster Relief Hub**, a facility in metro Atlanta storing emergency supplies. The hub will store more than a half-million Amazon-donated relief supplies in 10,000 cubic feet of fulfillment center space. Their disaster relief and response team is partnering with global humanitarian relief organizations to leverage Amazon's scale and help improve response time to large-scale natural disasters around the world. The Disaster Relief Hub will initially support six global humanitarian aid organizations, including the American Red Cross, Save the Children and World Central Kitchen. NOAA is predicting another above-normal Atlantic hurricane season this year.

**Jeff Bezos is known for his sometimes far-out ideas**, but the soon-to-be former CEO of Amazon is headed off to outer space for real. On July 20, Bezos and his firefighter brother Mark will join the first crew to fly in a Blue Origin capsule. Bezos steps down as CEO on July 5. The passengers on the flight that will officially kick off Blue Origins space tourism business will all be winners of a charity auction. The capsule can hold six people, who will each have their own large window. Virgin Galactic's Richard Branson also plans to launch aboard his own rocket this year after one more test flight. The launch date, which is scheduled for just a few weeks after Bezos steps down as CEO of Amazon, is the 52nd anniversary of the Apollo 11 moon landing by Neil Armstrong and Buzz Aldrin.

**JP Morgan research estimates that Amazon could surpass Walmart to become the largest US retailer in 2022**, based on Amazon's growth in what is termed gross merchandise volume (GMV) a closely watched industry metric used to measure the total value of goods sold over a certain time period.

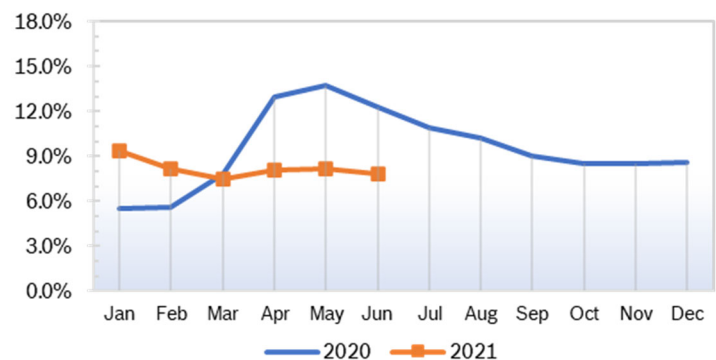
**Amazon is fighting legislation that would force them to more thoroughly investigate the identities of third-party sellers** on the Amazon marketplace. The INFORM acts has been proposed at both state and national levels and is supported by many big retailers, including The Home Depot. Amazon believes it would penalize small businesses that sell online and do nothing to prevent fraud and abuse.

**Amazon has committed \$200 million in capital to create a total of 1,800 affordable homes** in Nashville and the Washington, D.C. metro. Amazon is providing below-market capital for developers in both markets as part of Amazon's \$2 billion Housing Equity Fund. Their goal is to preserve and create more than 20,000 affordable homes by making below-market loans to housing partners, traditional and non-traditional public agencies and minority-led organizations. The development in D.C. will be a unique transit-oriented community. Amazon said that housing and transit are the first and second-largest expenses for most households.

## CANADA SNAPSHOT

### Unemployment Falls to 7.8%

Canada Unemployment Rates



- ▶ The unemployment rate fell to 7.8% in June after rising to 8.2% in May.
- ▶ Employment rose 1.2%, or 231,000 after falling by 68,000 jobs in May. Job gains were entirely in part-time work and concentrated in the 15 to 24 age range.
- ▶ The number of Canadians who worked from fell by more than 400,000 to 4.7 million, down from spring 2020.
- ▶ Employment in construction fell by 23,000 (-1.6%) in June, after falling by 16,000 in May. The number of construction workers remains below pre-pandemic levels.
- ▶ Employment in retail trade rose by 75,000 (3.4%) as pandemic restrictions eased.

## Consumer Prices Rise 0.5%

**The Consumer Price Index (CPI) rose 0.5% in May after rising 0.5% in April** and was up 3.6% year over year after being up 3.4% year over year in April, according to Statistics Canada. The annual increase was the highest since May 2011 and could raise concerns that price pressures could be stronger than anticipated by the Bank of Canada (BoC), eventually leading to an increase in interest rates. Prices rose in every major component on a year-over-year basis. Shelter prices rose 4.2% year over year in May, the largest yearly increase since September 2008. Gasoline prices continued to rise, but at a slower pace. The BoC had earlier projected that inflation would rise to about 3% because of the disparate comparisons to 2020, but should return to close to the bank's target of 2% by the end of the year. Statistics Canada is attempting to balance the impact of the pandemic by removing items that were not available in March from the year-over-year comparisons.

## GDP Falls 0.3% in April

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

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

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

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

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

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

## Interest Rates Steady

**The BoC left its key interest rate on hold at 0.25%** at their meeting in early June and reiterated their view that the recent jump in inflation is temporary and the country's economic recovery is largely on track. With vaccinations proceeding at a faster pace and provincial containment restrictions easing over the summer the BoC expects the economy to rebound strongly. The benchmark interest rate has been at 0.25% for more than a year.

## Housing and Construction News

**Canadian housing starts rose 3.2% in May** to 279,900 units after dropping 19% in April. The strong showing pushed the six-month average to just over 280,000 units, which analysts termed "very healthy." The increase was led by multifamily starts; single-family starts fell 18% to an annualized rate of 64,000. Nationally, starts are down 11% in the second quarter to date compared to the first quarter, partially due to a big drop in Ontario.

**Home sales fell 7.4% in May** after falling 12.5% in April, according to the Canadian Real Estate Association (CREA). CREA noted that two consecutive months of dropping sales is an indication of fatigue and frustration among buyers dealing with sky-high prices and a shortage of homes. In addition, the urgency to find a good place to hunker down during the pandemic is fading as the country begins to open up again. Vaccinations are increasing and many provinces are now reopening after a third round of shut downs. The national average selling price was C\$696,000, down 1.1% from April but still up 38.4% from April 2020. Actual sales, not seasonally adjusted, were up 103.6% from May 2020, when lockdowns were in place.

## Retail Sales Fall 5.7%

**Retail sales fell 5.7% in April** to \$58 billion after rising to an upwardly revised number in March. Sales decreased in 9 of 11 subsectors, representing 74.2% of retail trade. Core retail sales, which exclude gasoline stations and motor vehicle and parts dealers, decreased 7.6%. In volume terms, retail sales decreased 5.6% in April. Retail sales fell primarily due to restrictions put back in place in response to a third wave of CV19 cases. Sales at building material and garden equipment and supplies dealers dropped 10.4%, the first decline in nine months. Despite the decline, sales remained above levels reached in February 2021. The drop in retail sales follows

record sales of hardware, tools, renovation and lawn and garden products in March. Retail sales declined in seven provinces.

## Retail Ecommerce Sales Climb

**On a seasonally adjusted basis, retail ecommerce fell 0.4% in April.** On an unadjusted basis, retail ecommerce sales were up 7.4% year over year to \$4.0 billion in April, accounting for 7.0% of total retail trade. The share of ecommerce sales out of total retail sales rose 0.4% in April.

## Retail Notes

**Amazon Canada introduced My Wellbeing,** a digital resource that will provide Amazon employees with a single point of access to a range of physical, mental, social and financial care providers. Amazon employees can use their mobile devices or computers to access exclusive virtual physiotherapy sessions, a virtual gym, mental health support and much more.

**Amazon plans to open a 600,000-square-foot robotics fulfillment center in Alberta in 2022.** The center will be used to pick, pack and ship small items such as books, electronics and toys. The smart systems will support, not replace, employees; the new center will create more than 1,000 jobs.

## MARKET TRENDS

### Home Improvement Market Growth

**The Home Depot and Lowe's have about a 30% market share of the home improvement market,** according to data provided by Bank of America (BoA). Home Depot has about 17% share and Lowe's has 12%, which means the industry remains extremely fragmented. Because THD and Lowe's have considerable advantages over hardware stores and others in the category, including ecommerce capabilities and access to inventory, Bank of America expects both companies to continue to gain share. BoA estimates that the average US household spends \$3,000 on home projects each year. When millennials were surveyed, 72% said they were likely to buy a home in the next two years. BoA identified a substantial market opportunity for what they termed a "consistently profitable" category. RBC Capital Markets analysts also forecast continuing demand in the

home improvement category despite the fact that consumers are headed back out into the world for parties, work, dining out, events and vacations. BoA estimates the market is moving toward \$1 trillion overall.

### J.D. Power Home Improvement Study

**The J.D. Power 2021 US Home Improvement Retailer Satisfaction Study** delved into facts behind the boom in home improvement sales. About 30% of US consumers said they are either planning or actively working on a home improvement project.

**Just 13% of respondents said they purchased products from the retailer's website,** while 87% shopped in a store, with 98% of in-store shoppers saying they felt safe and comfortable even at the height of the pandemic.

**Customers don't want to have to spend more than five minutes finding an item or an aisle.** A majority (66%) of respondents said that their retailer met that threshold, although there was a fairly wide gap between the best in class (72%) and the worst in class (49%).

**Younger customers have the highest levels of satisfaction,** with Gen Y and Gen Z customers averaging 842 on a 1,000-point scale and Gen X and Boomers averaging 824.

**Younger generations have increased their home improvement activity within the past year,** with 42% planning for or in the process of doing a project in the next three months compared to 27% of the older generations.

### Thanksgiving and Holiday Plans

**Walmart, Target and Best Buy have already announced that stores will be closed on Thanksgiving Day** in order to allow associates to spend the holiday with their families. Last Thanksgiving during the pandemic many retailers remained closed in order to avoid driving traffic to stores and pushed online promotions instead.

### Amazon Prime Day Impacts Retail Sales

**Total US online spend across retailers surpassed \$11 billion during Prime Days** (June 21-22), which represents a 6.1% increase from Prime Day 2020, according to Adobe Digital Economy Index data. The moderation in year-over-year growth

may be indicative of the general direction ecommerce sales are heading in now after booming during the pandemic. Analysts noted that Prime Day 2021 was just eight months after Prime Day 2020, and several weeks ahead of Amazon's traditional mid-July date, traditionally when consumers are engaging in back-to-school shopping and many begin holiday shopping. Retail analysts note that Amazon may have decided to get Prime Day in before people start vacationing, traveling and diverting spending to services. In addition, constrained inventory and unreliable supply chains have forced virtually all third-party sellers to be selective with promotions. *Chain Store Age* reported that a recent survey showed that 35% of consumers say their favorite retailers are still dealing with out-of-stock issues and 48% have changed buying habits due to the pandemic, including buying more items in bulk and restocking household items earlier than they would have before. The retailer supply chain issues are so severe that the National Retail Federation (NRF) recently sent a letter to President Biden asking for help in fixing supply chain disruptions that are adding days and weeks to supply chains as well as leading to inventory shortages that impact their ability to meet their customers' needs.

## Retail Sales Forecast

**The NRF has upwardly revised its most closely watched forecast** and now expects retail sales to total between \$4.44 trillion to \$4.56 trillion this year, up from \$4.02 trillion in 2020. Their numbers exclude automobile dealers, gasoline stations and restaurants. The NRF's initial projection of at least 6.5% growth was made in February. Non-store and online sales, which are included in the total figure, are expected to grow between 18% and 23% this year, to \$1.09 to \$1.13 trillion, up from \$920 billion in 2020. NRF also forecast full-year GDP growth of 7%, up from 4.4% to 5% forecast earlier. The NRF is seeing clear evidence of a strong and resilient economy and noted that the sheer amount of both fiscal and monetary policy intervention has lifted personal income and replaced income lost back in March and April 2020, creating an excess of purchasing power.

## New Ways to Pay

**Target is partnering with Minneapolis-based financial tech company Sezzle to provide customers with new options to pay for goods** both in stores and online. Sezzle allows customers to split payment for their orders into four interest-free installments over a period of six weeks. There is no fee if customers pay on time. Target mentored Sezzle's founders in 2019

through their Techstarts retail accelerator. Sezzle went public in 2019 and got a surge of new customers during the pandemic. Sezzle said its platform is used by more than 34,000 retailers.

## International Corporate Tax

**The G7 countries are working out an international corporate tax agreement** that would ensure that multinational companies with operating margins of 10% or more would pay a minimum tax rate of 15%. When they realized that Amazon might not have to pay because their overall operating margin is around 7%, the proposal went back to the drawing table and will be represented in July. At the press conference after the deal, US Treasury Secretary Janet Yellen said that companies like Amazon and Facebook would be taxed, but did not detail how that will happen.

## Who's on Facebook?

**Facebook, founded in 2004, now has more than 2.8 billion monthly users worldwide**, with 69% of US adults saying they use Facebook, compared to 40% who use Instagram, the second most popular social media platform. About 70% of US adult Facebook users visit at least once a day, and almost half check in several times each day, according to a recent study from Pew Research Center.

**Around three-quarters of US women (77%) use the platform**, compared with 61% of men. There are differences by education level as well. About three-quarters (73%) of adults with a college degree or more use Facebook, compared with 64% of those who have a high school diploma or less.

**Americans ages 65 and older are the least likely age group to use Facebook**, with just half saying they do so. But that still represents a 30% increase since August 2012, when just 20% reported using it. Only about half of American teens are on Facebook, and 70% of those who do use Facebook come from lower-income households.

**Facebook is a surprisingly nonpartisan platform**, with a roughly equal percentage of Republicans and Democrats. About a third of adults say they get their news from Facebook; however, about 60% of adults say they are highly distrustful of the news on Facebook.

**Nearly three-quarters of adults were not aware that Facebook shared information** about their traits and interests with advertisers; more than half of all the adults on Facebook were uncomfortable with Facebook collecting and sharing their information.

## Bipartisan Infrastructure Deal

**President Biden announced agreement on a \$1.2 trillion infrastructure deal that represented a bipartisan compromise** to his original proposal of \$2.3 trillion. A White House release said the compromise includes \$109 billion for roads and bridges, \$66 billion for passenger and freight rail, \$65 billion for broadband internet, \$55 billion for water infrastructure, \$49 billion for public transport, \$47 billion for infrastructure resilience, \$25 billion for airports, \$7.5 billion for electric buses and \$7.5 billion for electric vehicle charging stations. A vote is anticipated before the government's fiscal year ends September 30.