

# Market Briefing

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- ▶ Q1 conference call with analysts
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### Amazon Innovations

Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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## US ECONOMY

### Exchange Rates May 28, 2021

<b>Euro</b>	1 Euro = \$1.220	\$1.00 = 0.820 Euros
<b>Canadian Dollar</b>	1 CAD = \$0.827	\$1.00 = 1.209 CAD
<b>Japanese Yen</b>	1 Yen = \$0.009	\$1.00 = 109.843 Yen
<b>Chinese Yuan</b>	1 Yuan = \$0.157	\$1.00 = 6.368 Yuan
<b>Mexican Peso</b>	1 Peso = \$0.050	\$1.00 = 19.936 Pesos

### Market Watch May 28, 2021

<b>DOW</b>	34,529	+1.9%
<b>NASDAQ</b>	13,749	-1.5%
<b>S&amp;P 500</b>	4,204	+0.6%

The NASDAQ broke a six-month winning streak and finished modestly lower and the DOW and S&P 500 made modest gains after recording some substantial drops earlier in the month surrounding worries about inflation and bottlenecks inhibiting more robust growth, including supply chain woes and shortages of everything from rental cars to shipping containers. Markets turned positive as vaccinations approached 50% of the eligible population and most pandemic restrictions were lifted for the fully vaccinated.

### Consumer Spending Rises 0.5%

**Consumer spending inched up 0.5% in April** after jumping an upwardly revised 4.7% in March. Core consumer spending rose just 0.1%. Consumer incomes tumbled 13.1% in April after surging a record-breaking 20.9% in March, fueled by billions in one-time stimulus checks. The April gain in spending was led by a 1.1% rise in spending on services, the sector that covers airline travel, hotels and restaurants, all segments that were devastated by pandemic-caused shutdowns. Spending on goods actually fell 0.6%. The savings rate fell to 14.9% in April from 27.7% in March, but was still twice as high as it was pre-pandemic.

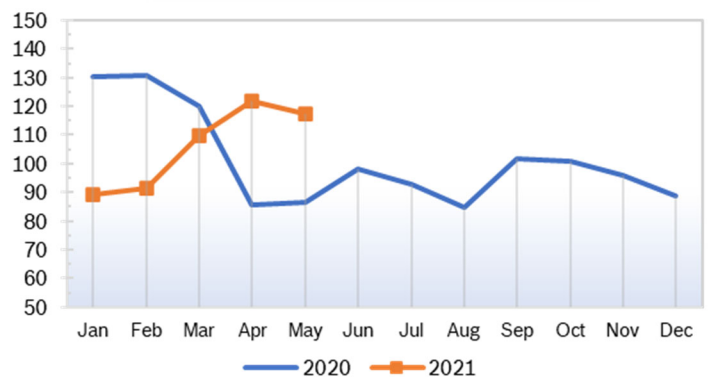
### Consumer Prices Rise 0.8%

**The Consumer Price Index (CPI) rose 0.8% in April** after rising 0.6% in March and was up 4.2% year over year. It was the

biggest jump in inflation since 2008, and far exceeded analysts' estimates. Core inflation, which excludes the volatile food and energy categories, jumped 0.9% after rising 0.3% in March and was up 3.0% from April 2020, double the year-over-year increase in March. Economists noted that while part of the jump was driven by the base effect of last year's readings being impacted by the pandemic, prices are rising in many categories, including lumber, auto parts, semiconductors, groceries and gasoline. The personal consumption expenditures (PCE) price index excluding the volatile food and energy component, jumped 0.7% in April and was up 3.1% year over year. 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 Steady

Consumer Confidence Index

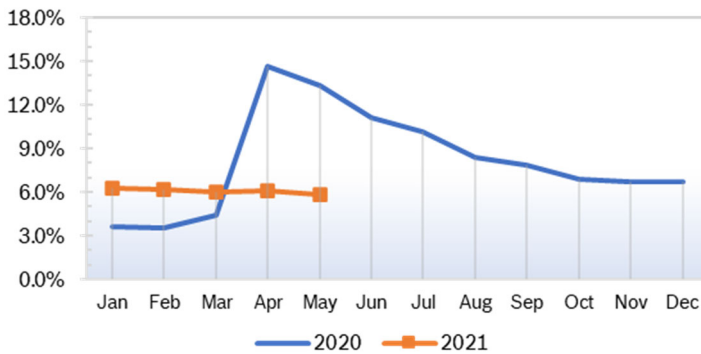


- ▶ The New York-based Conference Board's Consumer Confidence Index held steady at 117.2 from a downwardly revised 117.5 in April.\*
- ▶ The Present Situation Index, which is based on consumers' assessment of current business conditions, rose to 144.3 after jumping to 139.6 in April.
- ▶ Expectations fell to 99.1 after rising to a downwardly revised 107.9 in April.
- ▶ Consumer confidence has remained high after plummeting 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 5.8%

### U.S. Unemployment Rates



- ▶ The unemployment rate fell to 5.8% in May after rising to 6.1% in April and the economy added a robust 559,000 new jobs, slightly below estimates of 671,000 jobs.\*
- ▶ Job gains were up substantially from the 266,000 jobs added in April.
- ▶ The service sector bounced back, adding 292,000 jobs as newly vaccinated Americans went to restaurants, movie theaters and other venues that had been depressed by the pandemic.
- ▶ Construction payrolls fell for the second month, dropping by 20,000 jobs.
- ▶ Businesses are raising wages in an attempt to attract workers and fill jobs; average earnings have risen more than 1% over the past two months.
- ▶ It was the lowest unemployment rate since March 2020, when unemployment stood at 4.4%. There are still 7.6 million more people out of work than before the pandemic.

\* 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

**US job openings jumped 8% to a new record high of 8.1 million in March** after rising substantially in the previous two months, 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.

Job openings increased in many of the industries that were hit hard by the pandemic, including recreation, travel and foodservice. Hiring in March rose by 200,000 to 6 million. Layoffs dropped to a record low 1.5 million in March from 1.7 million in the prior month. Layoffs fell by 93,000 in construction, which has been buoyed by strong demand for housing. The layoffs rate dropped to 1.0% from 1.2% in February. The number of people voluntarily quitting their jobs rose to 3.5 million from 3.4 million in February. The quits rate was unchanged at 2.4%. 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 mostly because of problems related to childcare. There are still 8.4 million fewer Americans working than at the start of the pandemic. There were 1.2 Americans per job opening in March, up from just 0.8 Americans 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 Rises to 75.2

**The Chicago Purchasing Managers Index (Chicago PMI) rose to 75.2 in May** after rising to 72.1 in April. It was the highest level for the index since November 1973 and the eleventh consecutive month the index remained in positive territory after spending a full year below 50. New Orders gained 7 points to the highest level since December 1983 but Production slipped 2.3 points after sliding a fraction of a point in April. Prices Paid fell 3.1 points in May after rising in the previous two months, but several respondents noted that prices for steel, plastics, copper, electronic components and other commodities were rising. Firms are reportedly overbuying in an attempt to deal with shortages of raw materials. The special question for April asked if firms had plans to deal with the global shortage of computer chips. The majority did not; 46% don't use chips and 28.2% who do have no plans in place. 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 0.6%

**The Producer Price Index rose 0.6% in April** after jumping 1.0% in March. The increase was about double what economists were expecting. Prices were up 6.2% from April 2020, the largest advance in more than ten years. Core inflation, which excludes the volatile energy and food categories, rose 0.7% for the second consecutive month and was up 4.1% year over year.

Two-thirds of the increase in wholesale prices was concentrated in services such as air travel, transportation, financial advice and medical care as vaccinated Americans are doing things they put off during the pandemic. In addition, some costs that were absorbed by companies are now being passed along to consumers. 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 Unchanged at 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 second reading from the Commerce Department. Analysts had expected growth to be revised up to 6.6%. Upward revisions to consumer spending were offset by weaker growth in exports. Consumer spending surged 11.3%, up from the robust 10.7% first reported. Spending was fueled by federal payments of \$1,400 or more to most households, the reopening of many businesses and Americans coming out of their pandemic-induced hibernation and traveling, eating out, shopping in stores and going to events. 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.

## Yellen Warns of Bumpy Recovery

**Treasury Secretary Janet Yellen told the House Appropriations subcommittee the economic recovery will be “bumpy”** with high inflation readings likely to last through the end of this year. Yellen believes that inflation pressures will be temporary and reassured the committee that if they threaten to persist the government has the tools needed to address that scenario. Yellen said that the April increase in consumer prices was the result of a number of special factors related to the economy opening back up, reflecting big gains in the prices of airline tickets, hotel rooms and recreation, all areas where prices had fallen dramatically during the worst of the pandemic. In addition, prices are being driven up by supply chain shortages in critical areas such as computer chips and auto production, which were affected by temporary factory shutdowns and inventory diversions during the pandemic. Yellen said she was study-

ing economics and began her professional career during the 1970s, the last period of high inflation. She told the committee that she well remembers “those terrible times” and no one wants a repeat. They will be watching the current situation very closely.

## HOUSING & CONSTRUCTION

### Builder Confidence Steady

**Builder confidence held steady in May** after rising one point to 83 in April, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). It was the ninth 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. The HMI index gauging current sales conditions held steady at 88 and the component measuring sales expectations in the next six months rose one point to 81. The gauge charting traffic of prospective buyers fell one point to 73. Regional scores were mixed for the sixth consecutive month. Any number over 50 indicates that more builders view the component as good than view it as poor.

### Building Permits Rise 0.3%

**Overall permits increased rose 0.3%** to a 1.76 million unit annualized rate in May from downwardly revised April numbers. Single-family permits fell 3.8% in April to 1.15 million units after 1.20 million units in March. Multifamily permits dropped 1.2% to a 567,000 pace after falling in February. On a year-to-date regional basis, permits were mixed.

### Housing Starts Fall 9.5%

**Housing starts fell 9.5% in April** to a seasonally adjusted annual rate of 1.57 million units after rising to 1.74 million units in March. Single-family starts fell 13.5% to a seasonally adjusted annual rate of 1.09 million units after rising to 1.24 million units in March. The multifamily sector, which includes apartment buildings and condos, rose 0.8% to 482,000 units from downwardly revised numbers in March. Combined single-family and multifamily regional starts were mixed 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 Drop 5.9%

**New home sales fell 5.9% in April** to a seasonally adjusted annual rate of 863,000 after sales for March were revised down significantly from an initial increase to 1.02 million units. Inventory rose to a 4.4 month supply of 316,000 new homes for sale after falling to 307,000 new homes in March. The inventory of single-family homes for sale was 33.3% below April 2020. The median sales price rose to \$372,400 from \$310,100 in April 2020. NAHB said that new home prices are up 20% year over year as builders pass rising costs along to consumers after months of trying to hold the line. Many builders are also limiting sales as a way of managing the supply chain, including access and cost factors related to lumber, appliances and other building materials. 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 2.7%

**Existing-home sales fell 2.7% in April** to a seasonally adjusted annual rate of 5.85 million homes after falling to 6.01 million homes in March, according to the National Association of Realtors (NAR). Sales were up 33.9% from April 2020, when they were severely impacted by the pandemic. The inventory of homes available for sale at the end of April was up 10.5% from March to 1.16 million units but down 20.5% from April 2020. The current inventory translates into a 2.4 month supply at the current sales pace, down from 4 months in April 2020. Regional sales were mixed. The percentage of first-time buyers fell to 31%, down 5% from April 2020. The median existing home price for all housing types increased 19.1% year over year to \$341,600, the 110th consecutive month of year-over-year gains and the highest on record. The median price for single-family homes increased 20.3% year over year to \$347,400.

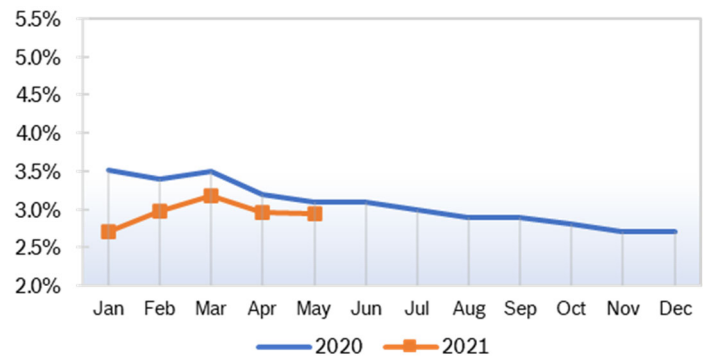
## Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence*	82 (-4)	84 (+1)	75 (-3)	90**
Building Permits YTD	+8.4%	+3.9%	-9.9%	-4.1%
Housing Starts Y/Y	-13.0%	-12.5%	-32.3%	steady
New Home Sales	+50.7%	+45.5%	+45.7%	3.6%
Existing Home Sales*	-3.9%	-3.7%	+0.8%	-31.0%

\* Year over Year \*\*unchanged

## Mortgage Rates Remain Below 3.0%

### 30-Year Fixed-Rate Mortgage



- ▶ A 30-year fixed-rate mortgage (FRM) remained below 3% in May and was 2.95% at the end of the month, little changed from 2.98% at the end of April. Mortgage rates were 3.13% at the end of May 2020.
- ▶ Rising home prices driven by high demand, low inventory and soaring prices for lumber are limiting how competitive prospective home owners can be.
- ▶ Low rates remain very attractive for homeowners who want to refinance. Freddie Mac estimates that at least \$2 trillion in outstanding mortgages could be refinanced and save half a percent or more.
- ▶ Analysts caution that low inventories and rising home prices are making it difficult for many potential buyers to find a home.



## POWER TOOL INDUSTRY

### Stanley Black & Decker

**Managing both short-term profitability concerns and long-term sustainability goals is complicated even more by a global crisis,** according to SB&D CEO Jim Loree. Loree told the *Financial Times* that Environmental, Social and Corporate Governance (ESG) is even more important during trying times. He said that they could not be more committed to the ESG program they began about five years ago. SB&D was named to the 100 Best Corporate Citizens for their outstanding environmental, social and governance transparency and performance among the 1,000 largest US public companies. SB&D ranked number 69 overall and number 8 in the Capital Goods industry. The ranking is based on 146 ESG transparency and performance factors that include climate change, environment, human rights and employee relations.

**SB&D highlighted their mentorship program with Techstars by co-hosting a “Demo Day”** virtual event to highlight some of the innovators Techstars has discovered and fostered. They featured Peer Robotics, which they described as the first collaborative mobile robot that understands humans through what is known as pathic feedback, which essentially means anyone can deploy the robot right out of the box, steer it along its path and teach it how to perform the task autonomously. There is no need for experts, engineers or training with special devices. That reduces costs and increases accessibility. They also featured Mentor Madness, which developed tracking technology that can be deployed in inventory management. Sensei Analytics was recognized for their new forecasting tool that can be deployed with much less data than normally required, making it more useful for dealing with rapidly changing circumstances such as occurred during the pandemic.

## RETAIL

### Retail Sales Unchanged

**Retail sales were virtually unchanged in April** after jumping an upwardly revised 10.7% in March. Retail sales were up 51.2% from April 2020 when pandemic restrictions were enacted across the country. Retail sales were also up 21% from April 2019. Despite occasional month-over-month declines retail sales have grown year over year every month since June 2020. Five out of ten categories posted modest growth in April and all ten categories were up year over year. Analysts note that flat sales following a significant increase mean that sales have remained at a very high level. Building materials and garden supply stores were down 0.4% after jumping 12.1% in March and were up 32.9% year over year. Online sales fell 0.6% after dropping 5.4% in March but were up 14.8% year over year. Core retail sales, which exclude automobiles, gasoline, building materials and food services, fell 0.8% after falling 3.5% in March but were up 40.6% year over year because most stores were ordered to close last April. Core retail sales correspond most closely with the consumer spending component of GDP. The National Retail Federation (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

**Q1 sales rose 32.7%** to \$37.5 billion, beating analysts' estimates. **Comp sales rose 31% overall and 29.9% in the US,** also beating expectations and up from a 24.5% increase in the fourth quarter. The big jump eased concerns that demand would ease amidst climbing vaccination rates and loosening restrictions.

#### Q1 Conference Call with Analysts:

**All top 40 markets posted double-digit growth in comp sales and Canada posted comps above the company average.** In addition, 13 of 14 merchandising departments posted comps at or above 20%, led by lumber and kitchen and bath. The one category that was down was paint. In Q1 last year everyone stayed home and painted.

**Comp average ticket increased 20.3% and comp transactions increased 19.1%.** Growth was driven by increasing project demand, customers trading up to new and innovative prod-

ucts and continued inflation in many product categories, including lumber. Big ticket comp transactions over \$1,000 were up 50% compared to Q1 2020.

**It was a record-setting quarter for lumber prices.** For example, last year a sheet of 7/16 OSB was \$9.55; this year it's \$39.76. Lumber inflation impacted average ticket growth by 375 basis points. They have plenty of wood fiber in their supply chain; the bottleneck is the sawmill cutting capacity. They do not see a lot of capacity coming online, which limits the amount of finished lumber in distribution. That drives up prices, but so far demand has more than kept up.

**There was double-digit growth with both Pro and DIY customers,** with Pros slightly outpacing DIY, the fourth consecutive quarter Pro sales have grown, and the best quarterly Pro sales growth on record. They have been working to increase their business with larger Pros, who typically use THD mostly for unplanned purchases. They are now seeing more planned purchase business from larger Pros.

**The services business has also strengthened,** growing for three consecutive quarters as people become more comfortable having people in their homes.

**Strong DIY demand continued,** with both new and existing customers engaged with both home improvement and outdoor projects. Countertops, vanities, blinds and home décor all showed significant growth.

**The housing environment remains very strong,** with the current shortage of new housing driving up home values as well as investment in home improvements.

**Their promotional activity was up slightly from Q1 last year,** when some promotions were canceled entirely, but clearance activity was down significantly.

**Disruptions in global supply chains were further exacerbated by port congestion.** They leveraged their scale and partnered with vendors to maintain in-stock positions and also prioritized key SKUs in high demand categories.

**Online sales through all their digital platforms rose 27%** compared to Q1 2020, with approximately 55% of online orders fulfilled through a store. That adds up to more than 100%

growth on a two-year basis. They emphasized that ecommerce is a capability, not a business, and is driven by top-level demand.

**They rolled out mixed-cart selling from stores;** it enables associates to meet total project needs by including products from the store and the website in a single transaction.

**They are expanding their Rent Online, Pickup in Store program** to all 1,300 rental locations in the US and Canada.

**They continued to build out their One Supply Chain vision by opening several new facilities.** Improving fulfillment capabilities creates a better customer experience and also allows them to drive productivity and expand opportunities. They are on track to increase their fulfillment square footage by more than 70% this year.

**They now have four flatbed DCs open** in various stages of ramping up, with all of them well ahead of plan.

**They believe they picked up about 170 points in market share overall** based on government data that came out in March. Their calculations show the overall market is \$600+ billion, with MRO, which is largely focused on multifamily, adding another \$55 billion. Customer satisfaction scores are up 11%.

**They incurred about \$80 million in CV19-related expenses** during the first quarter.

**They opened one new store in the US and one in Mexico during the first quarter,** bringing their total store count to 2,298. Inventories at the end of the quarter were \$19.2 billion, up \$4.2 billion from last year. Inventory turns were 5.5 times, up from 5 times last year.

**They repeatedly reaffirmed that it is very difficult to predict how business will be impacted** by the return to more normal times and whether the reopening of the economy will slow down the pandemic-fueled boom in sales.

#### Other News:

**The Home Depot Foundation awarded \$30,000 in skilled trades scholarships** to six high school seniors and college/post-secondary students as the Southeast sponsor of

SkillsUSA's National Signing Day 2021. THD's trades training program, Path to Pro, has certified more than 5,000 participants thus far.

## Lowe's

**Q1 sales rose 24.1% to \$24.4 billion and comp sales rose 25.9% overall and 24.4% in the US.** Sales on Lowes.com rose 36.5% and were up 146% on a two-year basis. Canada delivered comp growth that outpaced the US despite several CV19-related operating restrictions.

### Q1 Conference Call with Analysts:

**Growth was broad-based across Pro and DIY customers, in-store and online and across product categories.** All merchandising departments were up more than 20% on a 2-year comp basis.

**Comp average store ticket rose 14.1% and transactions grew 11.8%,** with strong repeat rates from both new and existing customers.

**At the end of the quarter inventory was up \$2.2 billion from Q4** to \$18.4 billion, an increase of \$4.1 billion from Q1 2020 when unexpected spikes in demand and CV19-related supply disruptions pressured inventory. About \$780 million of the inventory increase is related specifically to inflation.

**While difficult to measure, they estimate the March government stimulus checks provided 300 basis points of growth** and commodity inflation boosted comps by 460 basis points.

**Their shift to an everyday competitive price strategy continues to benefit them.**

**Lumber delivered the highest comp driven by strong Pro demand and unprecedented inflation** in the category. Lumber products have been in tight supply; strong in-stocks in this tight market have allowed them to continue to strengthen relationships.

**They extended their SpringFest event over four weeks** to create excitement and prompt return visits as well as to avoid congestion in the stores.

**They expect the elevated interest in all things home that developed during the pandemic will continue for many years,** long after the masks are retired and people resume more normal lives.

**They are focused on promoting a blend of national and private label brands.** Powerful national brands appeal to both Pro and DIY customers and high value private brands build customer loyalty.

**They are pleased to launch the Lowe's exclusive FLEX cordless power tools collection** that is targeted at the most discerning builders, contractors and trade professionals. Their strong Pro brand lineup includes Bosch, DeWalt, Simpson Strong-Tie, Spyder, Eaton and SharkBite.

**Focusing on perpetual productivity improvement** continued to yield results. Technology helps them reduce tasking hours, improve customer service and increase sales productivity.

**They are leveraging an improved freight flow app** that creates a fully digital process that gives associates info on when products will arrive in stores. The app, developed in-house, also helps store associates prioritize the incoming merchandise.

**They launched secure mobile checkout to improve speed of service in high traffic areas** inside the store and for busy areas outside such as lawn and garden and under the Pro canopy. This checkout app allows them to process customer orders on the spot and print or email a receipt.

**They completed the rollout of BOPIS lockers to 100% of US stores in April.** Customers love these touchless, easy to use lockers so much they have become the highest rated store fulfillment option.

**Pro comps of more than 30% outpaced DIY comps.** They have been focusing on growing their Pro business for two years and are very pleased with progress to date. They have concentrated on improving in-stock inventory levels, enhancing service offering and the new Pro loyalty program.

**They are shifting to a more strategic phase of growth with Pros** by resetting the layout of their stores with the Pro in mind and deepening their Pro relationships through a members-only loyalty program.



**They are targeting small and medium-sized Pros** because they are frequent shoppers and purchase products in multiple departments. They believe their biggest growth opportunity with Pros is expanding their share of wallet with their existing customers.

**Pro customers are always pressed for time.** They've launched a tailored shopping experience that offers new convenience products at checkout and services such as dedicated Pro trailer parking and phone charging stations.

**They are also enhancing the online experience for Pros,** which will give them access to options that DIY customers already have and allow them to quickly add more features. They estimate their penetration of the Pro market at 20% to 25% and can see that growing over time to 30% to 35%.

**Their installation business is growing rapidly** with comps over 60%. Two years ago installation was a money-losing business with poor customer satisfaction.

**They are very bullish on the future of the home improvement market in general.** All the macro factors, such as low mortgage rates, rising home prices, aging housing stock, improved household formation trends and strong consumer balance sheets, are favorable. They anticipate that millennials will become homeowners over the next several years, a trend that may have been accelerated by CV19.

**Demand remains very strong,** and they credit their preparation and all the work they've done to build strong supplier relationships with helping them keep up with unprecedented demand.

**Top three strategic priorities** over the next 18 months are continuing to invest in online, which is actually an omnichannel strategy, invest in the installation services business and improve their overall performance with the Pro. In the past they failed to understand the economic value of the Pro. Pros add a different dimension because of the frequency with which they shop and the fact that they shop the entire store.

#### Other News:

**Lowe's hosted a National Hiring Day event** as part of their search for 50,000 employees to fill seasonal, full-time and part-time positions. Candidates have an opportunity to meet with

hiring managers, speak with employees and even receive a job offer on the spot.

## Walmart

**Q1 sales rose 2.7%** to \$138.3 billion. Ecommerce sales grew 37% at Walmart and 47% at Sam's Club. Comp sales in the US were up 6.2%, down from 10.3% growth in Q1 last year. For Q2, Walmart expects its US comp sales to rise in the low single-digit range. The previous guidance called for a slight decline.

**Walmart noted that all segments performed well in the first quarter** and sales were undoubtedly boosted by more than \$325 billion in stimulus money that hit bank accounts in the first quarter.

**Walmart has no immediate plans to expand their subscription service.** Walmart+ was launched in September 2020 as a more affordable alternative to Amazon Prime.

**Walmart is acquiring telehealth provider MeMD,** which will allow Walmart to expand their Walmart Health services by providing access to virtual care services across the country. Walmart's latest move comes as Amazon announced plans to expand their on-demand telehealth service, Amazon Care, to their nearly one million US employees by summer.

## Menards

**Wisconsin-based Menards is scouting for locations in Pennsylvania** as part of their expansion strategy. The first Pennsylvania store will reportedly be located in Fayette County. Local sources say that Menards has also been looking for locations closer to Pittsburgh. Menards, founded in 1958, is a family-owned chain that has grown to more than 300 stores in 15 states.

## Ace Hardware

**Q1 revenues rose 42%** to \$2.0 billion and US comp sales rose 29.9%. Revenue from Acehardware.com sales jumped 219.6%. It was the best quarter in Ace's history, driven by increased inventory depth, booming digital sales and the addition of 51 new stores.

**CEO John Venhuizen noted that the operational environment continues to remain challenging,** due to high demand,

limited supply and what he termed a ridiculously disrupted global supply chain.

**Ace plans to hire more than 30,000 people for Ace stores and distribution centers** nationwide in preparation for what they anticipate will be a very busy summer. They are already seeing increases in in-store traffic as people who have been shopping primarily online get out and enjoy browsing through stores again. Ace has more than 5,000 retail stores across the US.

**Ace Hardware collaborated with the Veterans of Foreign Wars (VFW) again this year and honored veterans by giving away 1 million American flags** nationwide on the Saturday of Memorial Day weekend. Consumers who visited a participating Ace store received a free American flag, and a second flag was donated to a local VFW post to be used for marking and honoring veterans' graves. Last year, 535,000 American flags were given away to customers and another 535,000 were distributed to more than 2,000 VFW Posts.

## Amazon

**Amazon will raise pay for about 500,000 US employees** in their warehouses, delivery network and other fulfillment teams by between 50 cents and \$3 an hour. The action follows scrutiny from lawmakers and an unsuccessful attempt to unionize a large warehouse in Alabama. Amazon added more than 400,000 employees in the US last year and typically reevaluates their wages each fall before the holiday shopping season. But this year they moved up the review program and began rolling out the new wages in mid-May. Amazon also said they are hiring for tens of thousands of open positions.

**Amazon Prime Day will reportedly take place June 21 and June 22**, according to internal memos leaked by Amazon employees to Bloomberg News. Amazon asked employees to keep the date confidential until the company made a formal announcement; uncertainty about the date makes it more challenging for other retailers to ride the Prime Day coattails. Amazon will not be holding Prime Day in Canada and India, due to CV19 concerns.

**Amazon now offers in-garage delivery to all US Prime grocery shoppers** as part of a program to stop porch pirates from stealing packages. When Key by Amazon launched in 2017 in-

garage delivery for packages was available in 4,000 cities. Now customers in the 5,000 towns and cities where Amazon Fresh and Whole Foods Markets offer online deliveries will be able to choose it as a delivery option. Thefts by porch pirates lead to millions of dollars in losses each year.

**Amazon's physical store sales fell 15.5%** to \$3.92 billion in the fiscal 2021 first quarter even though overall net sales jumped more than 40%. Physical store sales also dropped in the fourth quarter of 2020. Results mostly reflect dropping sales at Whole Foods.

**Amazon grew its advertising revenue 77%** to \$6.9 billion in the first quarter as shopping online continued to grow and brands shifted advertising spending to target online shoppers. According to eMarketer, Amazon has more than 10% of US ad revenues overall, with Amazon, Facebook and Google accounting for two-thirds of digital advertising dollars.

**Amazon invested more than \$700 million and employed more than 10,000 people during 2020 to protect their online stores from fraud** and abuse. In addition, Amazon offers third-party sellers a variety of tools and services to help detect and prevent fraud. Amazon seized more than 2 million products sent to their fulfillment centers that it detected as counterfeit before any were sent to customers.

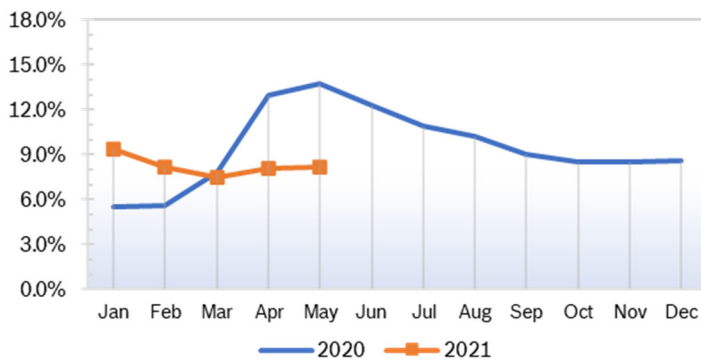
**Amazon is focusing on improving the health and well-being of their hourly warehouse staffers**, rolling out a new program called WorkingWell that aims to better educate employees on how to avoid on-the-job injuries and improve mental health. They're using safety videos, kiosks that show guided meditation and calming scenes and sounds and wellness zones that provide dedicated spaces to stretch, meditate and relax.

**Amazon plans to hire another 75,000 people for their fulfillment and logistics network** and is offering pay hikes and a vaccination bonus. New jobs will pay more than \$17 per hour, \$2 more than Amazon's current minimum wage of \$15. Across many locations new employees will get signing bonuses of \$1,000. Everyone already vaccinated for CV19 will get a \$100 bonus.

## CANADA SNAPSHOT

### Unemployment Rises to 8.2%

#### Canada Unemployment Rates



- ▶ The unemployment rate inched up to 8.2% in May after rising to 8.1% in April.
- ▶ Employment fell 0.4%, or 68,000 jobs, after falling by 207,000 jobs in April. Almost all job losses were in the part-time sector.
- ▶ The number of Canadians who worked from home and worked at least half of their usual hours was little changed in May at 5.1 million, similar to its level in spring 2020.
- ▶ Employment in construction fell by 16,000 (-1.1%) in May, driven by declines in Ontario, where public health restrictions affecting non-essential construction were implemented on April 17. The decrease brought the number of workers in construction 3.7% (-55,000) below pre-COVID levels.
- ▶ Employment in retail trade fell by 29,000 (-1.4%) in May, after dropping 84,000 in April. This brought the number of workers in retail to 6.2% (-140,000) below pre-pandemic levels, the lowest level since February 2021.
- ▶ Alberta and Manitoba introduced new measure in May while Quebec and New Brunswick eased restrictions.
- ▶ 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.

### Consumer Prices Rise 0.5%

**The Consumer Price Index (CPI) rose 0.5% in April** and was up 3.4% year over year after being up 2.2% year over year in March, 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. Core inflation, which reflects underlying price pressures, rose to 2.1% in April from 1.9% in March, the highest reading since 2012. Higher gasoline prices were responsible for much of the increase; prices were up 62.5% in April compared to April 2020 during the early weeks of the pandemic. The BoC had predicted 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 Grows 1.4%

**GDP grew 1.4% in the first quarter of 2021**, following increases of 9.1% in the third quarter and 2.2% in the fourth quarter of 2020. These gains more than offset the sharp -11.3% drop in the second quarter of 2020. Real GDP was up 0.3% compared with the first quarter of 2020.

**Housing led the recovery, rising 26.5%** compared to the first quarter of 2020. On a real basis, housing investment rose 9.4%, after increasing 29.6% in the third quarter and rising 4.0% in the fourth quarter of 2020. Growth in housing was attributable to an improved job market, higher compensation of employees, and low mortgage rates. After adding \$63.6 billion of residential mortgage debt in the last half of 2020, households added \$29.6 billion more in the first quarter of 2021.

**On a real basis, household spending increased 0.7%** in the first quarter. Spending was down 1.9% compared with the first quarter of 2020.

**The savings rate rose from 11.9% in the fourth quarter of 2020 to 13.1% in the first quarter of 2021**, more than double the rate of 5.1% in the first quarter of 2020. It was the fourth consecutive quarter the savings rate has been in double-digits.

## Interest Rates Steady

**The BoC is reportedly not in any hurry to raise interest rates**, stating that Canada is still down 500,000 jobs from pre-pandemic employment levels and about 700,000 jobs from where the economy would ideally be with full employment. The Canadian dollar is up 4.5% so far this year and is the best performing major currency. The BoC now thinks inflation will move back into the 2% range sometime next year and they will probably raise rates during the second half of 2022. Interest rates have been at 0.25% for nearly a year; the bank cut rates three times in March 2020 as the pandemic began in order to keep credit flowing and ease costs for households. They also raised their forecast significantly for GDP growth this year to 6.5%.

## Housing and Construction News

**Canadian housing starts dropped 19% in April** to 268,631 units from 334,759 units in March. Single-detached urban starts slipped 0.1% to 78,918 after rising 3.6% in March. Analysts said much of the decline was due to a slowdown in the pace of multiple-unit projects.

**Home sales fell 12.5% in April** after rising to record highs in March, according to the Canadian Real Estate Association (CREA). Sales declined to 60,987 homes and nearly 85% of all local markets, including B.C. and Ontario, saw sales decline. Inventory fell to just 1.7 months at the end of March, the lowest level on record. Listings were up more than 50% from last March to 105,001 and were up 7.5% on a seasonally adjusted month-over-month basis. The national average home price in March rose 2.4% to \$723,500, up 23% from April 2020 and 56.7% from five years ago. Calgary and Montreal were the only two major urban markets that saw sales rise in April. Mortgage rates are expected to remain low.

## Rising Home Prices, Moderating Sales

**Home prices could rise by as much as 14% this year, but the pace of sales could moderate** by the end of 2023 if broad immunity to CV19 is achieved soon, according to Canada Mortgage and Housing Corp. (CMHC). Prices across the country could soar to an average of \$649,400 by the end of this year and peak at \$704,900 in 2023 before beginning to moderate. CMHC predicts average prices will be between \$584,000 and \$602,300 this year, but will slow to between \$539,600 and \$561,100 in 2023. CMHC says the pandemic-related surge in

demand for lower-density homes in suburban and smaller communities will have run its course and rising mortgage rates and high prices will restrain demand. If the shift to working remotely proves to be permanent it could erode or even reverse price differentials between major metropolitan centers and rural locations. In the Greater Toronto area, where market conditions have really heated up during the pandemic, CMHC's highest estimates show average prices rising to \$1,087,600 this year and \$1,205,400 by the end of 2023.

## Retail Sales Rise 3.6%

**Retail sales rose 3.6% in March** to \$57.6 billion after rising in February. Sales rose in 10 of 11 subsectors, representing 79.1% of retail sales. Core retail sales, which exclude sales at gasoline stations, and motor vehicle and parts dealers, rose 4.7% in March, buoyed by a 19.8% increase in building material and garden equipment and supplies sales. Core retail sales rose 3.8% in February. Core retail sales were up in most subsectors. Retail sales were up 1.8% in the first quarter, the third consecutive quarterly increase. In volume terms, quarterly sales were up 0.5%. Overall retail sales rose in six provinces, with Ontario leading the gains with a 9.0% increase.

## Retail Ecommerce Sales Climb

**On an unadjusted basis, retail ecommerce sales were up 58.5% year over year** to \$3.7 billion in March, accounting for 6.3% of total retail trade. The share of ecommerce sales out of total retail sales fell 0.7 percentage points in March as more brick-and-mortar stores were allowed to open their doors to in-person shopping. On a seasonally adjusted basis, retail ecommerce fell 1.5% in March.

## Retail Notes

**Lowe's Canada plans to equip RONA and Reno-Depot corporate stores in Quebec with pickup lockers** for contactless pick up of online orders. The lockers will be installed near the entrances of select stores and equipped with Bluetooth technology, a touchscreen and user-friendly access instructions. Customers will be able to retrieve products they bought online within seven days of the purchase by scanning a barcode found in their order confirmation email. By the end of spring, 104 stores will offer this option. Lowe's plans to add more stores after the initial rollout. Lowe's Canada operates some 470 corporate and affiliated stores under different banners in Canada.

**Canadian Tire revenue rose to \$3.32 billion in the first quarter**, up \$2.85 billion from Q1 2020, and comp sales rose 19.3%. Only 40% of Canadian Tire stores were open at the beginning of 2021. CEO Greg Hicks credited the big bump to an early spring in much of the country and their ability to keep up with demand for outdoor gear, automotive products and home improvement items.

**Canadian Tire ecommerce sales jumped 257% in the first quarter** to \$450 million, and online sales for Canadian Tire quintupled compared to first quarter last year. Three-quarters of online orders are picked up curbside at a store.

**Canadian Tire will soon begin testing a subscription membership program**, charging customers a flat fee for perks such as extra loyalty rewards for in-store purchases, free home delivery of all online orders and access to Bell Media's Crave streaming service. The cost of this new program has not been decided.

**Amazon is postponing Prime Day in Canada** due to the increasing impact of CV19 and the importance of protecting the health and safety of employees and customers. Cases have risen in Canada in recent months and less than 3% of the population is fully vaccinated.

**Amazon is adding new fulfillment centers in Langley, Mitt Meadows, Delta and Vancouver, British Columbia**, that are expected to create 2,000 jobs. One center in Vancouver will be a 450,000 square foot robotics fulfillment center at the Port of Vancouver that will launch in late 2021 and employ 1,000 people in addition to the robots. It will be Amazon's first robotics fulfillment center in B.C.

## MARKET TRENDS

### What Shape Recovery?

**A debate is underway about whether the spike in inflation** caused by rising prices for everything from groceries to gasoline is a trend or a temporary reaction to accelerated demand and short supply. The rapid reopening of the country has suddenly boosted demand for many services such as airline travel and restaurants that suffered during the pandemic. The Fed has pledged to keep interest rates low for a long period of time in order to guarantee maximum employment. The Fed believes

the current rounds of price increases are most likely temporary and should not interfere with spurring employment. Economists note that many spikes in prices are in response to unique situations. The global chip shortage has slowed down production of new vehicles. Rental car companies sold off parts of their fleets during the pandemic due to lack of demand, so there are fewer used cars on the market, and prices are up on both used and new vehicles. The building materials spike has resulted from a pandemic-driven surge in demand coupled with a pandemic-driven drop in labor and exacerbated by tariffs that are still in place as well as the strong Canadian dollar. But as production ramps up, these shortages are expected to ease. Jumps in airfare and hotel room rates are largely a bounce-back from the steep discounts offered during the outbreak. The cyberattack on a major gas pipeline serving the East Coast combined with panic-buying drove supplies down and prices up. The Fed believes that much of this is due to "reopening pains" and that production will soon meet demand, stabilizing prices and providing solid economic growth. If people and businesses panic about inflation and raise prices and wages, inflation will become a self-fulfilling prophecy.

### Global and US Spending Boom?

**Consumers around the world have amassed an extra \$5.4 trillion in savings since the pandemic began**, which has set the stage for a spending boom that could lift global economic growth. Households had stockpiled savings equal to 6% of global GDP by the end of March, according to Moody's Analytics. Those savings are on top of what people would have normally saved. The US boasts the largest share of excess savings, amounting to \$2.6 trillion, or 12% of US GDP, with the United Kingdom close behind at 10% of GDP. Many wealthier households have built up savings they would have otherwise spent on travel, entertainment and eating out. Another factor has been unprecedented support by governments committed to making sure workers and companies fiscally survived the pandemic. As lockdowns ease up, consumers are expected to spend about \$2 trillion of this surplus cash globally, adding about 2% to global GDP growth. However, in the US those aged 55 and older have more than 60% of the excess savings, with homeowners holding 90% and 75% concentrated in households with at least a college degree. One factor limiting an even bigger spending boom is the fact that high-income households in the US are more likely to treat accumulated savings as "wealth" rather than income, and therefore will spend less of it, at least immediately.



## Women Breaking the Concrete Ceiling

**Women make up just 10.3% of construction industry jobs,** and 2.5% of skilled trade jobs but comprise 47% of all employed US individuals. One out of every 100 employees on the front lines of a job site are women. Today about 87% of women in construction have office jobs. However, the number of woman-owned construction firms is growing rapidly, with women owning 13% of construction companies. The majority of those are small businesses, but 9% have annual revenue of more than \$500,000.

**Several factors can explain this enormous gender gap,** including lack of both opportunity and exposure in school, few trail-blazing role models, lack of adequate training opportunities and both an unconscious and conscious gender bias. However, there are forces at work in the industry bent on changing all that, because the skilled-trades construction worker shortage is expected to get worse. Analysts project that the industry will have an astonishing two million new jobs in 2022.

**In the last five years, more companies have been hiring more women and promoting them to leadership roles.** More than 40% of the Top 100 contracting companies have women in executive roles. Many large contractors and industry associations are now offering courses and running boot camps for students and interested women at all levels.

**A recent McKinsey study found that construction companies with more women in executive line roles outperform the competition.** These companies experienced above-average financial performance, and when 30% or more of executive-level positions were filled by women, those companies had a 48% likelihood of outperforming their least-diverse competitors.

**Nationally recognized groups** like the National Association of Women in Construction (NAWIC) and Women Construction Owners & Executives USA provide mentorship, marketing and networking opportunities to help women who are new to the construction industry.

**Women in construction are becoming media stars.** ABC's unscripted competition show, *Tough as Nails*, produced by the *Amazing Race's* Emmy-award winning Phil Keoghan, features men and women with physically tough jobs, many in the skilled trades. Contestants compete both individually and as part of a

team, so no one gets voted out. Women made it to the final rounds in both seasons, and repeatedly talked about how they wanted to be role models for girls and other women who perhaps had never thought about the skilled trades. The unexpected hit show has already been renewed for at least two more seasons.

**NBC recently profiled a new generation of Rosy the Riveters on the *Today Show*.** During World War II women stepped up into many traditionally male jobs, including welding and construction jobs. But when the war ended, most of them went back home. Today just 4% of welders are women. A nonprofit program started in Detroit in 2014 called Women Who Weld is an intense training program out to change all that; so far they have a perfect track record: 100% of the 400 women who have enrolled have graduated and gone on to land jobs in the industry. The women say the program is very empowering. America has lost some 7 million manufacturing jobs since the 1960s but the need for welders has grown, with salaries sometimes topping \$100,000.

## Truck Driver Shortage

**A truck driver shortage that has been developing over the past ten to fifteen years has been kicked into high gear by the pandemic.** Truck drivers can make from \$40,000 for a beginning driver to \$80,000 and more, but the job is very demanding and drivers can be away from their home and family for weeks at a time. The American Trucking Association estimated that the industry was short at least 60,000 drivers in 2018, and now that shortage is growing. The average age of the existing workforce plays a major role. According to surveys by ATA, nearly 57% of all commercial truck drivers are over 45, and 23% are over 55. That means a quarter of the current trucking workforce will hit retirement age in the next 10 years, not including the nearly 8% of truckers who are currently working above retirement age. Recruiting and training is tough; drivers must be 21 to cross state lines and transport many types of products and many companies have very strict hiring standards due to liability issues. This summer, a chronic shortage of drivers is expected to lead to gasoline shortages and other issues. Industry analysts say that long-term solutions that provide better training and benefits are needed. In addition, warehouses and transportation centers need to be streamlined and optimized to cut down on waiting time and wasted hours and long-haul truck drivers need access to more centers with food, fuel and necessities that can accommodate big rigs.

## The Voice-Profiling Revolution

**Marketers are on the verge of being able to use AI-assisted vocal analysis technology to do a much better job of profiling customers** and meeting their needs, according to the University of Pennsylvania's Joseph Turow, who just wrote a book on the subject based on his research. People have embraced all manner of voice-activated and responsive devices and many companies now use voice intelligence in their call centers. That means artificial intelligence is gathering enormous amounts of data that helps identify and profile individuals by their speech patterns and even the sound of their voice. When you hear "This call is being recorded for training purposes," it's not just the customer service rep who is being monitored.

**Voice analysis and targeting is already being used by some companies**, and many more believe they will be able to take advantage of these capabilities within the next decade. Because many companies use the same software for customer service calls and calls are all recorded, the software is able to analyze and compare the voice and speaking style someone uses each time they call any of the companies who use the software. The software then creates user-profiles that group people with similar speaking styles. When a call comes in, predictive routing is used to get the call to a customer service rep who has previously been identified as being especially suited to handle people with a similar style and profile. For example, if the caller has been identified as friendly and talkative, they will be paired with a friendly and talkative agent who supposedly will have the best chance of solving their problem or upselling them.

**Voice analysis is viewed as more reliable than data profiling** for a variety of reasons; it is nearly impossible for someone to purposefully disguise their voice, and bots and trolls have not yet learned to speak like humans. The user agreements we all sign with Amazon, Google, Pandora and many other companies with phone apps give the company the right to use their digital assistants to listen, profile you and understand you based on the way you sound and speak. Many analysts see a dark side to voice analysis, profiling and predictive intelligence and worry that it could be used against someone, to decide you weren't a good candidate for a job or a loan, for instance.

## Amazon Innovations

**Amazon introduced a new program called Build It.** Amazon will present concepts for devices online and leave it to shoppers to choose whether or not they want something by pre-ordering

the item. If a concept hits a set preorder goal within 30 days, Amazon will go ahead and create the device and consumers will receive it at a special price. If it doesn't meet the goal, Amazon won't build it and shoppers will not be charged.

**Amazon is beginning to roll out their pay-by-palm technology** at Whole Foods stores near Amazon headquarters in Seattle where the experiment can be closely monitored. The technology, called Amazon One, lets shoppers scan the palm of their hand and connect it to a credit card or Amazon account. Amazon says the initial set up takes less than a minute. The shopper simply scans their hand at the register. Amazon launched the tech last year and made it available to other businesses, but thus far there have been no takers. Privacy experts warn that biometric data used by companies could be hacked and stolen. Amazon says it keeps the palm images in a very secure part of their cloud and doesn't store any info on the Amazon One device. Shoppers can ask for their info to be deleted at any time.

**Amazon's Core AI team launched a CV19 forecasting methodology that drove more than \$500 million in buying decisions.** Amazon told *Sourcing Journal* at the A14 Retail, Supply Chain and Marketing Summit that over the first six months of the pandemic their new methodology, which they developed in less than two weeks, increased Amazon's allocation of key products by 40% after the first wave of CV19. Amazon used historical data that provided insights into supply chain demand shifts, including data from the 2008 recession, country-level data since the beginning of the pandemic, unexpected weather events and a ream of other seemingly unrelated data that helped them separate seasonal demand from pandemic demand. In addition, the way they developed the new tools also informed more than \$50 million in strategic long-term investments. Amazon also noted that one of the most useful benefits was developing the ability for both Amazon and their partners to really understand and adapt to unpredictable events.

**Amazon Web Services (AWS) and the Dream Collective launched SheDares**, an interactive learning program for women who want to change careers or return to the workforce. The no-cost learning platform caters to professional women who have not considered a role in the tech industry, where there is a shortage of female role models as well as other barriers, including where to start and the perception of a challenging and steep learning curve. The head of training for AWS noted that many skills, such as creative thinking, analytical thinking, problem solving and attention to detail are very transferable to tech.