

# Market Briefing

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## RETAIL

### Retail Sales Rise 0.4%

#### The Home Depot

- ▶ Q1 sales fall 4.2%; comp sales fall 4.5% overall and 4.6% in the US
- ▶ Q1 conference call with analysts

#### Lowe's

- ▶ Q1 sales fall 6%; comp sales fall 4.3%
- ▶ Lowers annual guidance
- ▶ Q1 conference call with analysts

#### Walmart

- ▶ Q1 sales rise 7.6%; US comp sales rise 7.4%
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- ▶ Q1 revenue falls 5.8%
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- ▶ Incorporates open AI into Alexa

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## MARKET TRENDS

### New Home Construction Benefits from Existing Home Shortage

### Trucking and Shipping Demand Slows

### Amazon Anywhere Metaverse

### Amazon Uses Several Tactics to Speed Up Delivery and Reduce Costs

Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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## US ECONOMY

### Exchange Rates May 31, 2023

<b>Euro</b>	1 Euro = \$1.065	\$1.00 = 0.939 Euros
<b>Canadian Dollar</b>	1 CAD = \$0.736	\$1.00 = 1.359 CAD
<b>Japanese Yen</b>	1 Yen = \$0.007	\$1.00 = 139.767 Yen
<b>Chinese Yuan</b>	1 Yuan = \$0.145	\$1.00 = 7.111 Yuan
<b>Mexican Peso</b>	1 Peso = \$0.056	\$1.00 = 17.752 Pesos

### Market Watch May 31, 2023

<b>DOW</b>	32,908	-3.0%
<b>NASDAQ</b>	12,227	+6.0%
<b>S&amp;P 500</b>	4,169	statistically flat

Markets struggled near the end of May as the debt ceiling loomed, no final deal was approved and the markets worried that dissenting fringes might hold up the vote and insist on changes that couldn't be approved before the June 5 extended deadline imposed by Treasury Secretary Janet Yellen. The tech-heavy Nasdaq was boosted by excitement around the potential impact of artificial intelligence.

### Consumer Spending Rises 0.8%

**Consumer spending jumped 0.8% in April** after an upwardly revised 0.1% gain in March. Core consumer spending rose 0.5%. The increase was greater than expected. Spending rose on services and vehicles, and was driven partially by strong wage growth. Consumer spending was included in the first report for Q1 GDP, which showed that consumer spending surged 3.7% in the first quarter.

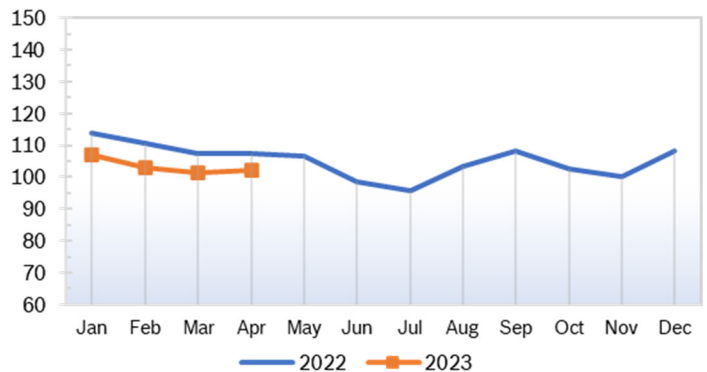
### Consumer Prices Rise 0.4%

**The Consumer Price Index (CPI) rose 0.4% in April** after rising 0.1% in March. Consumer prices were up 4.9% year over year after being up 5.0% in March. The year-over-year increase was the smallest since 2021 and the tenth consecutive month that year-over-year inflation has cooled down. Core inflation, which excludes the volatile food and energy categories, rose 0.4% in April for the second consecutive month and fell to 5.5%

year over year from 5.6% in March. Though inflation is gradually slowing, it remains well above the Fed's preferred level of 2.0%. The personal expenditures price index (PCE) rose 4.4% year over year in April after being up 4.2% in March. Core prices, which exclude volatile food and energy categories, rose 4.7% year over year in April after rising 4.6% in March. Economists see core inflation as a better predictor of future inflation than overall inflation. The Fed tracks the PCE price indexes for monitoring their 2% inflation target.

### Consumer Confidence Falls to 102.3

Consumer Confidence Index

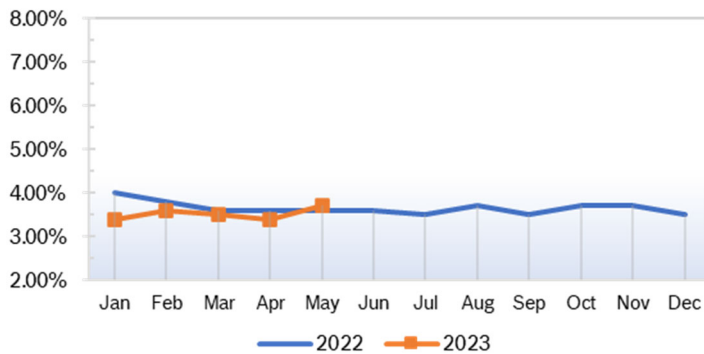


- ▶ The New York-based Conference Board's Consumer Confidence Index fell to 102.3 in May from an upwardly revised 103.7 in April.\*
- ▶ The Present Situation Index fell to 148.6 in May from an upwardly revised 151.8 in April.
- ▶ The Expectations Index, based on short-term outlooks for income, business and labor market conditions, fell to 71.7 in May from an upwardly revised 71.7 in April. A level of 80 or below indicates consumers expect a recession.
- ▶ In May 2020 Consumer Confidence was 120.0 but fell to 86.9 at the onset of the pandemic in March 2020.

\*A level of 90 indicates that the economy is on solid footing; a level of 100 or more indicates growth. Analysts caution that the real driver behind consumer spending is income growth and that labor market trends are a more accurate predictor of consumer behavior.

## Unemployment Rises to 3.7%

### U.S. Unemployment Rates



- ▶ The unemployment rate rose to 3.7% in May after falling to 3.4% in April. Unemployment was 3.5% at the beginning of the pandemic in March 2020.
- ▶ The economy added 339,000 new jobs, nearly twice the number forecast. Job growth for April was revised up 294,000 from the 253,000 jobs first reported. It was the 29th consecutive month of job growth.
- ▶ The economy continues to add jobs at a steady clip while holding unemployment at historically low levels despite rising interest rates, banking turmoil, tech layoffs and debt ceiling negotiations.
- ▶ Wage growth continued to cool off while still running above pre-pandemic levels.
- ▶ Job gains were widely spread across many sectors.
- ▶ Data from the Job Openings and Labor Turnover Survey (JOLTS) showed that after a few months of job openings consecutively falling job openings soared by 358,000 to 10.1 million. Job openings had been below 10 million in February and March.

## Chicago PMI Falls to 40.4

**The Chicago PMI fell to 40.4 in May** after rising to 48.6 rose to 48.6 in April. The unexpectedly large decline left the index well below 50, the level that signifies expansion, for the ninth consecutive month. A PMI number above 50 signifies expanded activity over the previous month; this was the sixth consecutive reading below 50, the level which indicates contraction. Looking back to when the series began in 1967, the PMI has ranged from 20.7 in June 1980 to 81.0 in November 1973.

## Wholesale Prices Rise 0.2%

**The Producer Price Index (PPI) rose 0.2% in April** after falling 0.5% in March and was up 2.3% year over year, down from a 2.7% year-over-year increase in March. It was the mildest year-over-year increase since January 2021. Stripping out volatile food and energy prices, core PPI rose 0.2% in April after dropping 0.1% in March and was up 3.2% year over year after being up 3.4% year over year in March. The PPI peaked at a whopping 11.7% year-over-year increase in March 2022.

## Q1 GDP Revised Up to 1.3% Growth

**Q1 GDP was revised up to 1.3% growth** from the anemic 1.1% growth first reported, according to the second reading from the Commerce Department. GDP grew 2.5% in the fourth quarter of 2022. Most of the growth in the first quarter was spearheaded by consumer spending, the main engine of the economy. Spending rose at a strong 3.8% clip after an initial 3.7% reading. Real GDP is still expected to decline in the fourth quarter of this year and the first quarter of 2024 and send the country into a mild recession, according to minutes from the Fed Board that came out prior to the GDP reading. However, that forecast was based on GDP gradually declining in the first three quarters of the year.

## HOUSING & CONSTRUCTION

### Builder Confidence Rises to 50

**Builder Confidence rose five points to 50 in May** after rising to 45 in April, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). It was the fifth consecutive monthly increase in confidence. All three major HMI indices posted gains in May. The HMI index gauging current sales conditions rose five points to 56, the component charting sales expectations in the next six months increased seven points to 57 and the gauge measuring traffic of prospective buyers increased two points to 53. It was the first time these components both returned to the 50+ range since June 2022. Builders continue to reduce prices and offer sales incentives to stimulate sales and help offset rising mortgage rates. Any number over 50 indicates that more builders view the component as good than view it as poor.

## Building Permits Fall 1.5%

**Overall building permits fell 1.5% in April** to 1.42 million annual units, reversing two months of overall increases. Single-family permits rose 3.1% in April to 855,000 annual units but were down 21.2% from April 2022. Multifamily permits fell 7.7% to an annualized pace of 561,000 units. Permits fell in all regions.

## Housing Starts Rise 2.2%

**Housing starts rose 2.2% in April** to a seasonally adjusted annual rate of 1.40 million units after falling to a downwardly revised number in March. Single-family starts rose 1.6% to a seasonally adjusted annual rate of 846,000 after March numbers were downwardly revised. Starts were down 28.1% from April 2022. Multifamily starts rose 3.2% to 555,000 annual units after March numbers were downwardly revised. Regional starts were mixed.

## New Home Sales Rise 4.1%

**New home sales rose 4.1% in April** to a seasonally adjusted annual rate of 683,000 after March sales were revised downward, according to the National Association of Home Builders (NAHB). Year-to-date sales were down 9.7% from 2022. New home sales were down 3.4% from March 2022. New single-family home inventory increased 0.2% after six consecutive months of declines but remained at a 7.6-months' supply; about six months is considered a normal, balanced market. The median new home sale's price in April fell to \$420,800, about an 8% decline from April 2022. Regional sales were down year to date in all regions. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

## Existing Home Sales Fall 3.4%

**Existing home sales fell 3.4% in April** to a seasonally adjusted annual rate of 4.28 million units after falling to 4.44 million units in March, according to the National Association of Realtors. Sales were down 22.4% from April 2022. The median existing-home sales price of \$388,800 was up from March but down 1.7% from April 2022. The inventory of unsold existing homes increased 7.2% from March to 1.04 million homes at the end of April, a 2.9 months' supply at the current sales pace. Single-family resale inventories rose 5.8% in April, the largest

monthly increase since mid-2022. Existing home sales were down in all regions.

## Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence*	45 (UC)	52 (+3)	39 (+2)	41 (+3)
Building Permits*	-27.2%	-18.7%	-28.2%	-28.6%
Housing Starts**	- 8.9%	-15.9%	-29.5%	-29.7%
New Home Sales*	-19.2%	-0.7%	-9.8%	-27.5%
Existing Home Sales***	-1.9%	-3.4%	-1.9%	-6.1%

\* change YTD \*\*change YOY \*\*\* change M/M

## Mortgage Rates Rise to 6.57%



- ▶ 30-year fixed-rate mortgages rose to 6.57% at the end of May after rising to 6.4% at the end of April. Mortgage rates were 5.1% at the end of May 2022.
- ▶ The resilient economy and worries over the debt ceiling sent rates up in May.
- ▶ Existing home owners are unwilling to put their homes on the market and give up their low mortgage rate, which is contributing to chronic inventory shortages and fueling the new home market.

## POWER TOOL INDUSTRY

### Stanley, Black & Decker

**Q1 Sales fell 12% to \$3.9 billion** as higher prices were more than offset by an 11% decline in volume. A 2% hit from currency and a 1% decline from their oil and gas divestiture accounted for the rest.

#### Q1 Conference Call with Analysts:

**CEO Don Allen was joined by new CFO Patrick Hallinan.**

**Tools & Outdoor revenue fell 13%** to \$3.3 billion, as price realization was more than offset by a decline in volume and a negative impact from currency. Volume was impacted by lower consumer and DIY market demand, modestly reduced channel inventory and a slow start to the retail outdoor season due to a cold March.

**Tools & Outdoor adjusted operating margin was 3%**, down versus the prior year, as price realization was more than offset by inflation, higher supply chain costs, production curtailments and lower volume.

**As a strategic business unit, Power Tools and Hand Tools declined organically 12% and 6%**, respectively, primarily driven by consumer demand.

**POS was down year-over-year** in Q1, and they expect that trend to continue in Q2.

**Pro demand continues to be very healthy** and they don't see any major shift in that area.

**The consumer side has been relatively flat** since the second quarter of last year. They don't expect any strengthening on the consumer side as people continue to shift their dollars to different spending categories.

**A key growth area for outdoor is leveraging the 2,500 Pro dealers that they acquired with their acquisitions.** This channel delivered a strong performance in the quarter and was up double digits year-over-year. Pro products under the Cub Cadet and Hussele Brands had a solid start, and they are building traction with their DeWalt cordless handheld products across the dealer network.

**They've approved the reduction of 60,000 SKUs across the portfolio**, of which 16,000 are now decommissioned. The remaining 44,000 are no longer being manufactured. They are working with their customers to transition to new SKUs in the coming quarters.

**The SKUs already eliminated had very little revenue tied to them** and little inventory in the system. There's revenue tied to the 44,000 SKUs they stopped manufacturing and there is also inventory in their system. So they'll be going through a thoughtful process of converting those customers to other products.

**Their global cost reduction program delivered \$230 million in pre-tax savings** during the first quarter and has delivered \$430 million in annualized savings since it was launched.

**Inventory at the end of the quarter fell to \$5.7 billion**, down approximately \$200 million from the prior quarter due to improving supply chain conditions and planned production curtailments.

**Inventory reduction is ahead of plan**, with an incremental \$200 million achieved during the quarter. Although they strategically built some inventory for Father's Day and promotions, overall they have reduced inventory by \$1 billion since mid-2022.

**Their full year 2023 inventory reduction target remains \$750 million to \$1 billion.** Inventory levels at their major customers in North America are coming down, but are still high. The Home Depot is within a week or so of where they'd like it to be, Lowe's is a little higher, but traditionally runs at a much higher level of inventory.

**They are planning for three different scenarios for the next three years**, all driven by various levels of demand. They will be disciplined on pricing and focused on improving margins during this year and beyond.

#### Other News:

**SB&D announced Chris Nelson will become COO, EVP and President of Tools & Outdoor**, effective June 14, 2023. Nelson joins SB&D from Carrier Corporation, where he was most recently President of Carrier's flagship HVAC segment. Nelson will report to President and CEO Don Allen. He's taking over from current Acting Co-Presidents Robert Raff and John Wyatt. Raff will continue to serve as Chief Commercial

Officer, Tools & Outdoor and Wyatt will become Senior Vice President, Strategy and Integration.

**SB&D donated Craftsman tools and storage systems to The Makers Hub**, a non-profit organization that's opening the Compton Tool Library (CTL) later this summer. The CTL will allow community members to affordably borrow tools and equipment for a variety of projects, including entrepreneurial efforts, gardening, home repairs, learning trades and DIY projects. This initiative is part of The Makers Hub's ongoing efforts to promote sustainable living practices through a circular economy and reduce waste by encouraging resource sharing. The Makers Hub will also offer workshops and training sessions to help residents learn how to repair and make things while promoting safe and effective use of the equipment.

## Makita

**Makita will lay off 213 workers in the US the end of June.** A notice to employees said the company-wide reorganization and reduction in force were necessary due to Makita's "current financial condition." Makita reported that sales for the fiscal year, which ended March 31, decreased in North America as demand dropped and fears of a recession depressed sales. Revenue increased 6.1% year over year in North America due to the depreciation of the yen against the US dollar. Makita products are sold at the Home Depot and Ace Hardware Corp.

## RETAIL

### Retail Sales Rise 0.4%

**Retail sales rose 0.4% in April** after falling a revised 0.7% in March, according to the Commerce Department. While a big reversal from March, the increase was well short of analysts' expectations of a 0.7% increase. Excluding automobiles, gasoline, building materials and food services, retail sales rose 0.7% in April after falling 0.3% in March. Core retail sales correspond most closely with the consumer spending component of GDP. Sales rose 1.2% at online retailers after rising 1.9% in March. Retail sales aren't adjusted for inflation and can reflect rising prices or one-time events that boosted spending. The retail sales report covers about a third of overall consumer spending and doesn't include services, such as travel and entertainment.

## The Home Depot

**Q1 sales fell 4.2%** to \$37.3 billion. Comp sales fell 4.5% overall and 4.6% in the US.

### Q1 Conference Call with Analysts:

**Billy Bastek, new EVP Merchandising**, has been with THD for 33 years and was hailed as a great steward of the Home Depot culture.

**There was relative strength in project-related categories** like building materials, plumbing and hardware but they continue to see downward pressure in a number of big-ticket discretionary categories.

**Sales for the quarter were below expectations**, primarily driven by lumber deflation and unfavorable weather, particularly in the Western division where extreme weather events in California disproportionately impacted results.

**DIY customers outperformed the Pro in the quarter**, but both were negative. While internal and external surveys suggest that Pro backlogs are still healthy compared to historical norms, they are lower than they were a year ago.

**Only four of 14 departments posted positive comps**, including building materials, millwork and hardware.

**Data from outside indicates that the types of projects in these backlogs are changing** from large-scale remodels to smaller projects.

**Comp average ticket increased 0.2% and comp transactions decreased 5%.** Excluding core commodities, comp average ticket was primarily impacted by inflation across several product categories as well as the demand for new and innovative products.

**Deflation from core commodity categories negatively impacted average ticket growth by approximately 335 basis points** during the first quarter driven primarily by deflation in lumber. During the first quarter they saw a significant decline in lumber prices relative to a year ago. As an example, on average, framing lumber was approximately \$420 per thousand board feet compared to approximately \$1,170 in the first quarter of 2022, which is a decrease of 64%.

**Sales on their digital platforms dropped 2.9%** compared to the first quarter of last year. More than 45% of online orders were fulfilled through stores.

**Big ticket comp transactions or those over \$1,000 were down 6.5%** compared to Q1 last year. There was some big ticket strength across Pro-heavy categories like portable power.

**There was softness in big-ticket discretionary categories** like patio, grills and appliances as well as softening demand for flooring, kitchen and bath, all of which most likely reflect customers moving to smaller projects, according to THD.

**They are seeing improvements in customer scores and a lower attrition rate for associates.** Since Sidekick, the AI program that directs associates to key bays where inventory is low or out of stock, rolled out last year they have seen a big improvement in in-stock and on-shelf availability, particularly in high-velocity SKUs.

**Retail selling square footage was approximately 241 million square feet.** Merchandise inventories were \$25.4 billion, essentially flat compared to the first quarter of 2022 and inventory turns were 3.9x down from 4.4x last year.

**They expect it to be a year of moderating demand,** given the already negative impact on first quarter sales from lumber and weather, with further softening of demand relative to expectations and continued uncertainty regarding consumer demand patterns. They lowered their guidance to reflect a range of potential outcomes and now expect fiscal 2023 sales and comp sales to decline between 2% and 5%.

**They are most excited about how their new programs are helping them gain spend and wallet share with Pros.** Engaging their new supply chain assets and expanded Pro capabilities has helped Pros become more willing to consolidate their purchases with THD.

**They will be talking more about the Pro business and their outlook for the year during their analysts meeting in June.**

## Lowe's

**Q1 sales fell nearly 6% to \$22.3 billion.** Comp sales fell 4.3%, driven by record lumber deflation, unfavorable weather and

lower DIY discretionary sales.

**Lowe's revised their guidance downward slightly** and now anticipates total sales of \$87 billion to \$89 billion for the full year, down from \$88 billion to \$90 billion. Comparable sales are expected to range from a decline of 2% to an increase of 4%. Lowe's is planning \$2 billion in capital expenditures in 2023.

### Conference Call with Analysts:

**Despite the overall decline, comp Pro sales were slightly positive for Q1** with broad-based strength across multiple categories measured against strong Q1 2022 comp sales of 22% for US stores. DIY sales were pressured by the delayed spring and lower-than-expected discretionary demand.

**They are replacing their 30-year-old operating system** with a modern omnichannel architecture that will deliver a seamless, intuitive experience for customers and be less complex for associates. This project has been underway for 4 years and they plan to retire their legacy green screens by the end of the year. They are pleased that they are on track to retire all legacy green screens by the end of this year.

**in Pro, growth was fueled by growth of their MVPs Pro Rewards program and CRM tool,** along with an improved Pro assortment, more inventory depth and omnichannel capabilities. They are gaining with their core Pro customer, small to medium-sized Pros.

**Online comp sales grew 6% for the quarter and now represent more than 10% of sales.** Online growth was supported by an increase in Pro sales due to upgrades in the Pro digital experience, new tools and personalization. They are also continuing to improve the online experience for DIY customers.

**They're continuing to roll out their market delivery model of 12 geographic regions across the country.** This model is much more efficient at delivering big, bulky items, which is fueling share gains in appliances and enabling future growth in the category.

**Five of 14 merchandising categories were positive for Q1,** including building materials and appliances. There was Pro-based strength across all three merchandising divisions.

**They are very pleased with their strong assortment of Pro brands, including Bosch, DeWalt and Simpson-Strong Tie.**

**They announced they are expanding their rural blueprint to as many as 300 additional stores by year-end,** with a wider offering of farm, ranch and outdoor products. Their goal is to position Lowe's as a one-stop shop for rural customers. Research showed that these stores, once considered a big competitive disadvantage, can instead be a huge opportunity.

**Their rural format includes broader product offerings in many categories** such as pet, livestock, trailers, fencing, utility vehicles, specialized hardware and their new Carhartt apparel, all designed to meet the unique needs and preferences of rural homeowners who work and play outdoors. They expect these stores to deliver higher sales per square foot than a traditional Lowe's.

**They completed the rollout of new dedicated Zebra smartphones for all MST associates** ahead of schedule. The system automatically prioritizes planogram changes, pricing updates and other projects to optimize associates' time on the floor and recommends the most efficient, highest value next task. It also gives associates step-by-step instructions to maximize productivity and minimize the learning curve for new associates. The app was built internally to seamlessly integrate with their other mobile apps.

**They just launched new Pro online business tools to enhance their MVP's Pro Rewards program,** which is designed to make Pros of all sizes feel like MVPs at Lowe's. Surveys showed that Pros wanted time-saving tools that help them shop quickly and minimize time away from the job site. Pros enrolled in their loyalty program shop with them more often, spend more per visit and overall spend three times as much as Pros who are not part of the program.

**Lowe's also discovered that their Pro associates spend a lot of time building quotes and checking order status,** tasks that take them away from serving customers in their stores. So they launched a suite of tools online and in their mobile app that make it easy for Pros to manage their orders from anywhere. Instead of having to drive to the store to get a quote, Pros can now build and update online quotes in minutes. It automatically applies to their volume savings pricing and discounts and lets them quickly download a PDF quote for their customers. They

can also use order tracking to track the status of the order throughout the fulfillment process. Feedback from Pros has been very positive.

**They are also focused on improving productivity and have been replacing their legacy self-checkout system** with a proprietary one that customers like better and use more often.

## Walmart

**Q1 revenue for Walmart rose 7.6%** to \$152.30 billion, beating expectations of \$148.94 billion. Sam's Club sales rose 4.5% to \$20.50 billion, slightly below expectations. Walmart raised their guidance for the year and now expects consolidated net sales to rise about 3.5%.

**Comp store sales for Walmart US increased 7.4%,** excluding fuel, with transactions up 2.9% and the average ticket up 4.4%. Ecommerce sales jumped 27%, led by pickup and delivery.

**Comp store sales at Sam's increased 7.0%,** with transactions rising 2.9% and the average ticket up 4.0%. Ecommerce sales rose 19%, led by curbside. Membership income grew 6.3%, with the largest quarterly member sign-up on record.

**Walmart's performance was also helped by advertising.** Walmart Connect ads grew nearly 40% during the quarter.

**Walmart also reaffirmed their commitment to building a nationwide network of charging stations** for electric vehicles.

## Ace Hardware

**Q1 revenues fell 5.8%** to \$2.1 billion. Ace attributed the first decline in revenues in more than six years to both the mild winter across much of the country and the late arrival of spring-like weather, which led to declines in the sales of both winter and spring goods

**The approximately 3,600 Ace retailers who share daily retail sales data reported a 4.4% decrease** in comp sales, due to a 3.0% decrease in same-store transactions and a 1.4% decline in average ticket.

**Ace added 50 new domestic stores in Q1** and cancelled 16 stores. The company's total domestic store count was 4,901 at the end of the first quarter, an increase of 111 stores from Q1 2022.



**Ace earned the top spot in the home improvement category on J.D. Powers annual Home Improvement Retailer Customer Satisfaction study.** It was the 16th time in the past 17 years Ace has been ranked number one overall. Ace came out on top in four of the five categories measured in the study: Staff and Service, In-store Experience, Online Experience and Merchandise. Ace scored 873 on a 1000-point scale. Ace was the only home improvement store listed to score more than the average score of 851. The study showed that while online shopping remains popular, 87% of home improvement purchases are made in brick-and-mortar stores. The study also showed that 89% of customers make a purchase on their first in-store visit. J.D. Powers surveyed 2,728 customers who purchased home improvement-related products from a retailer between December 2022 and March 2023.

## Amazon

**Eligible Citi credit card members can now pay in monthly instalments for Amazon products** with Citi Flex Pay when using Amazon Pay during checkout. The new payment option applies to eligible purchases of \$50 or more. This is the first time Citi credit card members can use Citi Flex Pay through a digital wallet. The digital wallet uses customer information stored in their Amazon wallet when they check out. Citi cardholders get 0% APR for initial instalment plans on Amazon Pay with Citi Flex Pay through the end of July.

**Amazon is offering US customers \$10 to pick up their purchases of \$25 or more at Amazon pick-up locations** such as Whole Foods, Amazon Fresh and Kohl's, rather than have them delivered. Amazon says it is not a cost-cutting measure, and a spokesperson said the program has actually been around for more than two years. Analysts say that widespread adoption would dramatically reduce delivery costs for Amazon and train customers to take returns back to these locations.

**Amazon will incorporate some features of open AI into digital assistant Alexa** to make her more interactive and conversational. In December, Amazon quietly acquired a small audio-focused artificial-intelligence firm called Snackable. Financial terms weren't disclosed, but Mari Joller, the founder and CEO of Snackable, now serves as an artificial-intelligence and machine-learning product leader at Amazon. Snackable will initially be working on podcast features offered through Amazon Music.

## CANADA SNAPSHOT

### Unemployment Holds at 5.0% in April



- ▶ The unemployment rate held at 5.0% in April for the fifth consecutive month and the economy added 41,000 new jobs after adding 35,000 jobs in March. Unemployment reached a record low of 4.9% in June and July 2022. In January 2021 unemployment peaked at 9.4%.
- ▶ All of the job gains were in part-time work in the private sector, where employment is up by nearly 300,000 jobs since April 2022.
- ▶ Employment in wholesale and retail trade increased by 24,000 (+0.8%) in April, following little change in February and March after rising by 59,000 jobs in January.
- ▶ Employment rose in Ontario and Prince Edward Island and fell in Manitoba. Employment was little changed in the other provinces.
- ▶ Year-over-year wage growth was 5.2%, above 5% for the tenth consecutive month. Wage growth needs to cool in order to tamp down inflation.

### Consumer Prices Rise 4.4%

**Consumer prices were up 4.4% year over year in April** after being up 4.3% in March. It was the first year over year increase since inflation peaked at 8.1% in June 2022. Statistics Canada said the increase in inflation for April was driven by higher

mortgage interest costs. Interest costs were up 28.5% compared with a year ago as both new homebuyers and people renewing mortgages faced higher interest rates. A 6.1% increase in rent prices also helped push up the overall rate. While the Bank of Canada (BoC) targets 2% annual inflation, their target for this year is to get inflation down into the 3% range.

## Housing and Construction News

**Housing starts rose 22% in April** to a seasonally adjusted annual rate of 261,559 units after climbing to 213,865 units in March, according to Canada Mortgage and Housing Corp. (CMHC). The increase was driven by a big jump in urban starts. Single-family starts fell 2% to 39,964. The six-month moving average of the monthly seasonally adjusted annual rate was 240,403 units in April, down 0.2% from 240,876 units in March.

**Canadian home sales jumped 11.3% in April** after rising 1.4% in March, according to the Canadian Real Estate Association (CREA). Although it was the third consecutive month of higher sales, the actual number of homes sold in April was down 19.5% from April 2022. The year-over-year sales decline was markedly smaller than the drops reported in recent months.

## Retail Sales Fall 1.4%

**Retail sales decreased 1.4% in March** to \$65.3 billion after dropping to \$66.3 billion in February. Sales fell in 5 of the 9 sub-sectors, representing 55.5% of retail trade. Core retail sales, which exclude gasoline stations, fuel vendors and motor vehicle and parts dealers, increased 0.3% in March. Gains were led by a 1.6% increase in sales at building and garden supplies and materials dealers. In volume terms, retail sales decreased 1.0% in March. Retail sales fell in all provinces except British Columbia. Retail sales were up 0.7% in the first quarter of 2023 and 1.2% in volume terms.

## Q1 GDP Rises 0.8%

**Real GDP rose 0.8% in the first quarter of 2023** after being unchanged in the fourth quarter. Favorable international trade and growth in household spending were moderated by slower inventory accumulations as well as declines in housing investment and business investment in machinery and equipment. Final domestic demand increased 0.7% in the first quarter of 2023 after remaining flat in the fourth quarter of 2022. Household spending rose for both goods and services.

**Housing investment continued to decline**, falling 3.9% in the first quarter as borrowing costs rose and mortgage originations fell. It was the fourth consecutive quarter household spending fell. The decline was widespread, with new construction falling 6.0%, renovations dropping 2.1% and transfer costs, an indication of resale activity, fell 1.5%. New construction fell in all provinces except the Yukon. Both household disposable income and corporate income fell.

## Consumer Prices Rise 4.4%

**Consumer prices were up 4.4% year over year in April** after being up 4.3% in March. It was the first year over year increase since inflation peaked at 8.1% in June 2022. Statistics Canada said the increase in inflation for April was driven by higher mortgage interest costs. Interest costs were up 28.5% compared with a year ago as both new homebuyers and people renewing mortgages faced higher interest rates. A 6.1% increase in rent prices also helped push up the overall rate. While the Bank of Canada (BoC) targets 2% annual inflation, their target for this year is to get inflation down into the 3% range. Interest rates have exceeded the bank's target rate for the past two years. Central bank economists expect inflation to fall rapidly in the coming months.

## Retail Ecommerce Sales Rise 2.2%

**On a seasonally adjusted basis, retail ecommerce sales were up 2.2% in March** to \$3.8 billion, accounting for 5.9% of total retail trade, compared with 5.7% in February.

## Retail Notes

**Canadian Tire Q1 revenue fell 4.9%** to \$3,707.2 million. Financial services segment revenue growth partially offset the retail segment decline, which was mainly due to lower revenue at Canadian Tire retail.

**Canadian Tire retail comp sales were down 4.8% for the first quarter.** Lower sales of winter and spring products were partially offset by growth in non-winter related automotive categories and in living categories.

**Canadian Tire noted that consumers were shifting from discretionary purchases** to trying to save money on essentials and also shifting spending to activities that were curtailed during the pandemic, including travel and dining out.

## MARKET TRENDS

### New Home Construction Benefits from Shortage of Existing Homes

**People looking to buy a home are increasingly turning to new construction** because of the chronic inventory shortage of existing homes.

**Builders of new homes are also facing challenges**, including shortages of transformers and other building materials and tightening credit conditions for residential real estate development and construction brought on by higher interest rates.

**In March, 33% of homes listed for sale were new homes in various stages of construction.** That share from 2000-2019 averaged 12.7%. With limited available housing inventory, new construction will continue to be a significant part of prospective buyers' searches in the quarters ahead, according to NAHB Chief Economist Robert Dietz.

**With interest rates more than doubling from 2021, the HMI survey shows incentives have played a key role in attracting buyers** in this new economic climate but now the use of these sales inducements is gradually slowing across the board.

**The share of builders reducing home prices dropped to 27% in May**, down from 30% in April, 31% in Feb. and March, and 36% last November. The average price reduction for a new home remains at 6%, unchanged for the past four months. In May, 54% offered some type of incentive to bolster sales, down from 59% in April and 62% last December.

**The Home Depot thinks we've already seen the impact of higher mortgage rates on potential sellers.** Approximately 40% of owner-occupied homes are owned outright. Of the households that hold a mortgage, close to 90% of them hold fixed-rate mortgages under 5%.

**Higher mortgage rates reduce the buyer pool and make it less attractive for owners to sell.** People are also spending more time at home and homes are definitely getting older. That means there's currently more incentive to stay in place and improve your home than to sell.

### Trucking and Shipping Demand Slows

**The demand for freight and for drivers has deteriorated over the past year** and per-mile rates for drivers have plunged since the pandemic boom. Trucking industry experts say the sector could be heading for a bigger downturn than during the Great Recession that began in 2008.

**Trucking is considered a gauge of the broader economy**, as it represents nearly two-thirds of tonnage carried by all domestic freight transportation, according to the American Trucking Association (ATA).

**Inflation, higher operating and maintenance costs, and the declining demand for goods are behind the slowdown.** After adjusting for inflation hovering near 5%, Bloomberg noted that the current National Truckload Index rate of \$1.49 a mile is actually closer to \$1.19. As capital becomes more expensive, trucking companies have been forced to pay more than usual to finance their vehicles. Overall truck tonnage fell 1.7% in April.

**US consumers boosted their purchases of goods during the pandemic** as restrictions on many activities limited services spending. As restrictions ended last spring there was a sharp pivot back toward services, leaving merchants' warehouses overstuffed. Retailers pulled back on orders from overseas suppliers while they burned off excess inventory.

**Container imports into US West Coast ports declined nearly 23% in the first quarter**, according to Descartes Datamyne, a data analysis group owned by supply-chain software company Descartes Systems Group. US West Coast ports are the main gateways for trade with Asia and for the array of suppliers producing consumer goods for American retailers. Lowell, Arkansas-based J.B. Hunt Transport Services, a bellwether for the US freight market, said customers are talking about restocking but so far that has not created an increase in shipping volume.

### Amazon Anywhere Metaverse

**Amazon is introducing Amazon Anywhere**, which lets customers shop and buy physical products from Amazon within a virtual environment, such as a video games, augmented reality (AR) and third-party mobile apps. They're launching it within Peridot, a new mobile game from Niantic. Items available for purchase include t-shirts, hoodies and phone accessories. Customers put the item in their cart and see everything just as they

would in the Amazon store. They check out via their linked Amazon account. Products will then ship and can be managed just like any other Amazon order. This latest introduction comes after last September's launch of the Amazon metaverse in India. While most consumers are not in the metaverse yet, an increasing number of retailers are jumping on board.

## Amazon Uses Several Tactics to Speed Up Delivery and Reduce Costs

**Amazon appears to be ranking items they display in searches based at least in part on how quickly and efficiently the item can be delivered** to the shopper, one of many steps they're taking to speed up delivery.

**Amazon research shows that the faster items are delivered, the more likely it is a customer will return.** During the pandemic, Amazon nearly doubled their warehouse space. Prior to that, Amazon shipped items from whatever warehouse stocked them, even if that was across the country from the customer. Now Amazon has divided the US into eight regions and is storing commonly ordered items in each region so shipping can stay as localized as possible.

**Amazon reports that 76% of orders are now fulfilled from a warehouse in the same region as the customer,** compared to 62% last year. The company also said the distance items travel between fulfillment centers and customers has decreased by about 15%. Amazon has also expanded the number of delivery centers that store essential items customers typically want delivered quickly like toiletries. The use of same-day delivery increased by 50% in the first quarter of 2023 compared to a year ago, with about 26 million customers paying more for the fastest option.

**An Amazon spokesperson told the *Sourcing Journal* that they couldn't have done that in 2019 because their distribution network could not have supported it.** There have not been any reports on whether the new procedures are disproportionately benefiting large sellers who have enough inventory available to spread stock across all regions.