BOSCH

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Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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US ECONOMY

Exchange Rates

Euro	1 Euro = $1.122	$1.00 = 0.891 Euros
Canadian Dollar	1 CAD = $0.790	$1.00 = 1.266 CAD
Japanese Yen	1 Yen = $0.009	$1.00 = 115.157 Yen
Chinese Yuan	1 Yuan = $0.158	$1.00 = 6.309 Yuan
Mexican Peso	1 Peso = $0.049	$1.00 = 20.407 Pesos

Market Watch February 28, 2022

DOW	33,893	-3.5%
NASDAQ	13,751	-3.4%
S&P 500	4,374	-3.1%

Markets ended the month down but proved more resilient than first expected just a few days after the Russian invasion of Ukraine outraged the world. Gold and oil jumped, the ruble plunged and Russia found itself increasingly cut off from the world's financial systems. Markets hate uncertainty, and speculation about Putin's state of mind and likely courses of action did little to quell the unease. However, analysts also speculated that the current crisis may cause the Fed to pause its plan to raise interest rates. Heavy volume, big swings and uncertainty about what lies ahead all contributed to exceptional volatility.

Consumer Spending Rises 2.1%

Consumer spending rose a solid 2.1% in January after falling downwardly revised 0.8% in December. Spending exceeded expectations but price pressures continue to mount. Core consumer spending rose 1.5% after declining a downwardly revised 1.9% in December. Personal incomes were unchanged as a 0.5% increase in wages was offset by a decrease in government social benefits. The report suggested strong underlying strength in the economy that could help it keep expanding when the Fed begins raising rates and provide some shield from the fallout from Russia's invasion of Ukraine.

Consumer Prices Rise 0.6%

The Consumer Price Index (CPI) rose 0.6% in January after rising 0.5% in December and was up 7.5% year over year. It was the largest year-over-year increase in thirty years for the second consecutive month. Core inflation, which excludes the volatile food and energy categories, rose 0.6% in January after rising 0.6% in December and was up 7.0% year over year, the biggest increase since 1982. Prices increased across most categories. The core PCE, which omits volatile food and energy costs, rose 0.5% in January after rising 0.5% in December. The core rate rose 4.9% in 2021, compared to a mild 1.5% gain in the prior year. That's the highest annual level since 1982.The core PCE price index is the Fed's preferred measure for its 2% inflation target, which is now a flexible average.

Consumer Confidence Falls to 110.5

- The New York-based Conference Board's Consumer Confidence Index fell to 110.5 in February after falling to a downwardly revised 111.1 in January.*
- The Present Situation Index, which is based on consumers' assessment of current business conditions, rose to 145.1 from a downwardly revised 144.5 in January.
- Expectations for the next six months fell to 87.5 in February after falling to a downwardly revised 88.8 in January.
- Concerns about inflation are weighing on confidence.
- Consumer Confidence plummeted to 86.9 at the onset of the pandemic in March 2020.

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

Unemployment Falls to 3.8%

- The unemployment rate fell to 3.8% in February after inching up to 4.0% in January. Unemployment was 3.5% at the start of the pandemic in March 2020.
- The economy added 678,000 new jobs,* well ahead of expectations. The number of new jobs added in January was revised up to 481,000 from the 467,000 first reported.
- The jobs report points to a strong economy and supports the Federal Reserve's plans to gradually raise interest rates.
- Construction added 60,000 jobs in February after being little changed in January. About three-quarters of the jobs were at residential and nonresidential specialty contractors.
- Retail added 37,000 jobs, with about one-third of them coming from building material and garden supply stores.
- Average hourly wages were unchanged after rising 0.7% in January to $31.63 and were up 5.1% year over year.

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

Job Openings Rise

Job openings reached 10.9 million in December, up from 10.8 million in November and near their all-time high, according to the most recent Job Openings and Labor Turnover Survey (JOLTS). Openings have topped 10 million for seven straight months. The rise in openings was driven by a big increase in openings in restaurants and hotels, both industries hit hardest by CV19-induced shutdowns and that have struggled the most to bring on workers. The number of employees quitting jobs fell to 4.3 million from a record 4.5 million in November. That means 2.9% of workers voluntarily left their positions, typically to take new, better-paying jobs. Since there were 6.3 million unemployed Americans in December, the 10.9 million openings translate to 1.7 available jobs for each unemployed person, the most on records dating back two decades. The number of total hires fell from 6.6 million to 6.3 million amid the COVID-19 surge.

Chicago PMI Falls to 56.3

The Chicago Purchasing Managers Index (Chicago PMI) fell to 56.3 in February after rising to 65.2 in January. Although it was the 20th consecutive month the index remained in positive territory results were well below expectations. All five of the main indicators fell, with New Orders dropping to a 20-month low. A PMI number above 50 signifies expanded activity over the previous month. While remaining in positive territory, the index has been on a downward trend since last May, when scarcity of supply amid booming demand began having an impact. 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 1.0%

The Producer Price Index rose 1.0% in January after rising just 0.2% in December and was up 9.7% year over year, the highest increase since the federal government started tracking this data in 2010 for the second consecutive month. Core inflation, which excludes the volatile food and energy categories, rose 0.85 in January after rising 0.5% in December and was up 8.3% from January 2021. The jump in wholesale prices significantly exceeded expectations and since it also exceeds the rate of inflation, the increase in wholesale prices will eventually push consumer prices up even higher.

Q4 GDP Grows 7.0%

Economic growth was revised up to 7.0% from 6.9% in the fourth quarter, according to the second reading from the Commerce Department. The revision met economists' expectations. The biggest change was an increase in business investment, especially housing. Residential spending rose 1% instead of declining 8% as initially reported. Spending on equipment was revised up to 3.1% from 2%. Most other categories were little changed. Most economists still project that GDP will grow a healthy 3% to 4% this year despite inflation and uncertainty.

HOUSING & CONSTRUCTION

Builder Confidence Falls to 82

Builder confidence slipped to 82 in February after falling to 83 in January, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). The HMI hit an all-time high of 90 last November. Despite the decline, the HMI has been above 80 for the past five months. Production delays due to shortages of materials and labor are raising costs and pricing buyers out of the market. The HMI index gauging current sales conditions increased one point to 90, the gauge measuring sales expectations in the next six months fell two points to 80, and the component charting traffic of prospective buyers posted a four-point decline to 65. Regional scores remained mixed. Any number over 50 indicates that more builders view the component as good than view it as poor.

Building Permits Rise 0.7%

Overall permits inched up by 0.7% in January to 1.90 million annual units after jumping to a 1.87 million units in December. **Single-family permits rose 6.8%** to 1.21 million annual units after increasing to 1.13 million units in December. Multifamily permits dropped 8.3% to 694,000 annual units after rising to 745,000 annual units in December. There are now 785,000 single-family homes under construction, a 26.8% year-over-year gain. There are 758,000 multifamily units under construction, a 14% gain. Regional permits were mixed year to date.

Housing Starts Fall 4.1%

Housing starts fell 4.1% in January to a seasonally adjusted annual rate of 1.64 million units after rising to 1.70 million units in December. Single-family starts fell 5.6% to 1.12 million units after falling to 1.17 million units in December. Regional starts were mixed. The number of single-family homes under construction continues to rise as supply chain log jams prevent homes from being completed. Rising costs combined with mortgage rates that are creeping up are making housing less affordable and pricing more first-time buyers out of the market.

New Home Sales Fall 4.5%

New home sales fell 4.5% in January to a seasonally adjusted annual rate of 801,000 homes. December sales were revised sharply upwards. New single-family home inventory was up 34.4% over last year, rising to a 6.1 months' supply, with 406,000 homes available for sale. However, just 37,000 are completed and ready to occupy. The median sales price rose to $423,300 in January from $395,500 in December, and is up more than 13% compared to a year ago, due primarily to higher development costs, including materials. Regional new home sales were mixed. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

Existing Home Sales Rise 6.7%

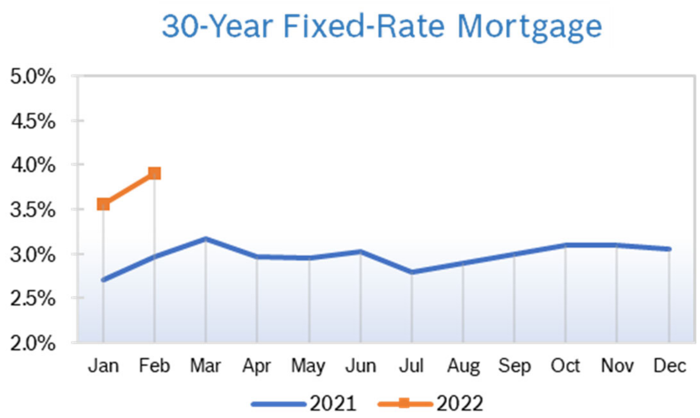
Existing home sales jumped 6.7% in January to a seasonally adjusted annual rate of 6.5 million units after falling to 6.18 million units in December, according to the National Association of Realtors. The inventory of unsold existing homes fell to a new all-time low of 860,000 at the end of January. That's an all-time low of a 1.6 months' supply. The median existing-home sales price was up 15.4% year over year to $350,000. Year-over-year prices have risen for 119 consecutive months. Properties were on the market for an average of just 19 days in January, with homes priced under $500,000 being snapped up in even less time. Existing home sales rose in all regions.

Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence	76 (+3)	86 (-1)	73 (-1)	89 (+1)
Building Permits YTD	-48.3%	11.4%	-0.7%	13.9%
Housing Starts Y/Y	2.6%	-2.0%	-37.7%	17.7%
New Home Sales*	-10.7%	-7.4%	-3.7%	1.2%
Existing Home Sales*	6.8%	9.3%	4.1%	4.1%

* Year over Year **unchanged

Mortgage Rates Rise to 3.9%



- 30-year fixed-rate mortgages (FRM) rose to 3.9% at the end of February after rising to 3.6% at the end of January. Mortgage rates were 3.0% at the end of February 2021.
- Mortgage rates ticked up all month and were briefly over 4.0% ahead of rising bond yields and the Fed's expected increase in interest rates but fell back during the last week.
- Rising rates have not yet impacted demand. Often pending rate increases push up demand as fence-sitters decide to take action before rates climb higher.
- Mortgage rates are still very affordable. The biggest problems remain lean inventories and supply chain problems.
- Freddie Mac expects home price growth to remain firm before cooling off later this year.

POWER TOOL INDUSTRY

Robert Bosch Tool Corporation

Robert Bosch startup, Azena, is developing a line of surveillance cameras that rely on edge computing, which means each camera has its own processor, operating system and internet connection and can provide "smart surveillance" of people, objects and places. The cameras connect to an app store where owners can purchase apps from cutting edge video-analytics tools that allow data to be analyzed. Azena is essentially a platform for companies and developers, much like the Apple and Google app stores, but for surveillance software.

Azena's CEO, Hartmut Schaper, says that developers and users must be compliant with the law or risk losing their license. The Azena store currently contains more than 100 apps and offered a face mask detection app within two weeks of the beginning of the pandemic. Applications currently provide video surveillance in closed spaces, such as a job site, where apps can identify certain types of pre-defined behaviors. Azena recognizes that surveillance cameras are often targeted by hackers and has hardened their systems to prevent this. They also have auditing procedures designed to identify and weed out illegitimate uses of their technology.

Bosch Mobility Solutions business saw 2021 sales rise 7.5% to 45.4 billion euros despite the global chip shortage, or 7.9% adjusted for exchange rates. Bosch is dedicated to accelerating the process of making partially and highly automated driving in everyday vehicles a reality and setting standards for the market that will benefit all automakers.

Stanley Black & Decker

Q4 and FY21 Conference Call:

Q4 revenue rose 2% to $4.1 billion with 5 points from price and 6 points from acquisitions. Volume was down 8% due to promotional shipment timing in 2020 and was impacted by logistical supply chain challenges.

Operating margins fell to 13.9%, due to cost inflation and supply chain challenges. They see the decline as a temporary trough and expect that their continued 2021 and 2022 pricing actions will fully offset the $1.4 billion in cost growth associated with inflation and the increased costs of keeping the business running smoothly over the past two years.

They remain bullish on construction and DIY and will focus on innovation, manufacturing, automation, expanding capacity and logistics.

They are targeting 7% to 8% organic growth this year with total revenue growth of more than $4 billion. They expect Tools & Storage to deliver organic growth in the high single digits. They expect MTD and Excel to contribute just over $3 billion in revenue, with about 60% coming in the first half.

Overall, Tools volume will be flat to down this year, with more decline in the first quarter, with sales getting a 6% to 7%

boost from price. They are aiming for "as much volume as makes sense."

Tools & Storage delivered 3% revenue growth as the acquisitions of MTD and Excel contributed 7% and price delivered 5 points. Volume declined 8% and currency subtracted 1%. Organic growth was lower in North America and Europe due to tough comps related to the prior year's holiday shipping timing, volume constraints caused by supply chain issues and the Q4 semiconductor shortage.

Power tools delivered 20% organic growth in 2021. Hand tools, accessories and storage delivered 17% organic growth.

Tools & Storage ecommerce grew more than 30% in 2021. 2021 saw strong double-digit growth in ecommerce, which now accounts for $2.5 billion globally and 20% of their tool business revenue.

They have already opened two new power tool plants and one new hand tool facility in North America and they are ramping up now. They have also added new battery suppliers and made co-investments with key partners.

The Tools and Outdoors businesses both saw high demand across global markets and channels. Traditional drivers of housing and repair/remodel activities are trending in a positive direction. Both household formation and urban exodus support strong housing demand and low inventories will support new residential construction.

Growing home equity and focus on the home supports reinvestment. Their homes grew in importance for many over the course of the pandemic, causing an overall change in consumer mindset and behavior patterns.

They are notifying North American customers about new prices increases of 5% to 10% or more for tools and outdoor products, depending on the category. That's on top of the 5% already delivered. They expect to cover 100% of inflation during this cycle.

They will be closely watching for any impacts from higher interest rates or changes in demand following price increases. They expect the supply chain to remain challenging, especially in the first quarter.

The PowerStack battery system launched in December is getting excellent market reception and has the potential to contribute several hundred million dollars of organic growth in 2022.

POS in US retail grew in the high single digits and channel inventory ended below historical levels.

The Outdoor business grew 3% organically in the fourth quarter and 40% in 2021. The addition of MTD and Excel added more than $200 million of revenue. They now expect MTD to outperform expectations in 2022 and have high expectations for their outdoor business.

The supply environment remains tight for semiconductors and electronic components. The elongated global supply chain means inventory spends a lot more time in transit.

They are driving innovation throughout manufacturing that will make their US plants more competitive and improve productivity.

Last year they made significant investments in inventory to meet the outsized demand in the tools business. Excluding the consolidation impact from acquisitions they increased their core inventory position by $1.8 billion compared to year-end 2020. About two-thirds of the increase is composed of inputs, work in progress or goods in transit that will work their way through the supply chain. The inventory build was more than they had planned on; goods in transit expanded due to port and logistical delays. They expect to sell through the incremental inventory this year.

Other News:

Analysts punished SB&D for their Q4 and full year results and their outlook and plans for 2022, with Citi downgrading their rating to Sell from Buy, citing a lack of innovation, competitors taking market share and margin pressures.

SB&D announced the ten companies selected to participate in this year's Techstars Accelerator. Participants will focus on technologies that enable the electrification of consumer and industrial products through the implementation of battery technology, advanced and recyclable materials, microprocessors, robots, consumer appliances and services. This year's program will be hybrid, utilizing both a virtual and in-person format. The class of startups represent the states of Arizona, California, Florida, Texas, and Virginia and the countries of Canada, Germany and Ireland.

RETAIL

Retail Sales Rise 3.8%

Retail sales rebounded in January, rising 3.8% after falling a downwardly revised 2.5% in December. It was the largest increase since last March and took sales to their highest level since the government began tracking data back in 1992. Sales at building material and garden supply stores jumped 4.1%. Online sales saw the biggest gains, soaring 14.8% after dropping 8.7% in December when consumers returned to stores. Some of the overall increase was driven by inflation. Core retail sales jumped 4.8% after plunging in December. Core retail sales correspond most closely with the consumer spending component of GDP.

The Home Depot

THD reported record results. Q4 sales rose 10.7% to $35.7 billion; comp sales rose 8.1% overall and 7.6% in the US. Sales for FY21 rose 14.4% to $151.2 billion and comp sales for the year rose 11.4% overall and 10.7% in the US.

For FY 22 they are expecting both overall and comp sales to be "slightly positive." At the end of Q4 THD operated 2,317 retail stores and employed more than 500,000 people.

Q4 and FY21 Conference Call with Analysts:

Both Craig Menear and Ted Decker were on the conference call. It was Menear's last call as CEO; Ted Decker takes over that role in March and Menear becomes Chairman of the Board.

Craig Menear began the call by saying what a blessing and honor it has been to serve for the last 7.5 years as CEO and 25 years with the company. He has great confidence in the ability of Ted Decker and the leadership team to guide THD through its next phase of growth.

It was the first time fiscal sales topped $150 billion. Over the pandemic THD grew the business by more than $40 billion; it had taken them nine years (2009 to 2018) to grow the business by more than $40 billion. Menear credited extraordinary efforts by all 500,000 associates, a world-class leadership team and strong relationships with supplier and transportation partners.

For the fourth quarter, all regions and merchandise departments posted positive comps, although hardware, tools, lumber, flooring, appliances and garden were below the company average.

Q4 average ticket rose 12.3% but comp transactions dropped 3.8%. Ticket growth was driven primarily by inflation across several product categories, including core commodities. Lumber prices remain volatile; during Q4 the price of framing lumber ranged from about $585 to more than $1,200 per 1,000 board feet, an increase of more than 100%. On a 2-year basis, both comp average ticket and comp transactions were healthy and positive. Big ticket comp sales (over $1,000) were up 18% compared to Q4 2020.

Sales leveraging their digital platforms grew 6% for Q4 and 9% for the year. About 50% of digital orders were fulfilled through the stores. Over the past two years sales from digital platforms have more than doubled.

Over the year they opened 7 new stores and added 14 new stores through a small acquisition, bringing the total store count to 2,317 and retail selling square footage to 241 million square feet.

Total sales per retail square foot were $605, the highest in company history. Merchandise inventories were $22.1 billion at the end of the quarter, an increase of $5.4 billion compared to FY20.

They are encouraged by the consistent and resilient demand for home improvement but the effects of inflation, supply chain dynamics and how consumer spending will evolve as CV19 restrictions ease are uncertain.

Regardless of conditions, their objective remain the same: to deliver the best customer experience in home improvement, extend their position as the low-cost provider and grow their market share.

It has been fifteen years since they switched their focus from new stores to productivity. Customer expectations continue to evolve and today's customer has very little patience for any friction in their shopping journey.

Their goals are to grow the business to $200 billion in sales, which would represent incremental growth of $50 billion and deliver best-in-class operating profit dollar growth and return on invested capital.

They estimate that the total available market in North America is now more than $900 billion. They have invested in capabilities that let them pursue opportunities they would not have been able to pursue in the past that offer great growth potential.

They believe that consumers and Pros each represent about 50% of the available market and each group also represents about 50% of their sales. For Pros, they believe the addressable end market is more than $450 billion, and the addressable maintenance, repair and operations (MRO) space has expanded to more than $100 billion. So, even though they are the number one home improvement retailer, they are still a small part of a large and fragmented total market that has expanded significantly.

They cited an example of one Pro customer in the Dallas market that started with a few unplanned convenience purchases and grew to $100,000+ annually and has now grown to more than $300,000, thanks to all the expanded services and options they offer Pros.

Everything they hear from Pro customers would indicate that they are dealing with big backlogs of work and have more than they can handle. Menear noted it took quite a while to find someone to do simple projects around his home.

They believe it is equally important to make it easier for the DIY customer to do business with them. They have invested in technology and capabilities that deliver more relevant results including an improved and updated mobile app and improved signage and search engine capabilities. Customers now have multiple fulfillment options, an easier experience at checkout and more knowledgeable assistance. They believe all these improvements have led to customers increasing their spend.

Over the past four years they've seen a significant increase in sales driven by product recommendations.

They are totally focused on delivering a truly seamless experience regardless of which channel the customer chooses. The new fulfillment centers are not just about fulfillment, they are about improving the customer experience. They allow them to expand their assortment and inventory depth and offer faster and more reliable delivery options. In addition, they take pressure off the stores so associates are free to focus on creating a better experience for the customer, which drives additional sales and customer satisfaction.

They believe they still have many opportunities to improve freight flow throughout the store and drive further space optimization.

Their outlook accounts for inflation and assumes unit sales will be relatively flat this year. There was a level of stability in the second half of 2021 that gave them confidence in projecting sales for 2022. Thus far this year transactions have been negative but are up on a two-year basis.

Particularly in Pro-oriented categories, when they get the goods they fly off the shelves, and they are seeing a lot of substitutions. So they know there is a lot of upside as the supply chain continues to improve.

Their goal of $200 billion in sales will be achieved "as soon as they can get there in a sustainable and profitable way." The investments they have made and will continue to make in improving the customer experience for both DIY and Pro will get them there.

Every category has an elasticity curve which they watch closely; when lumber skyrocketed past a certain point, sales fell. They have not seen any dramatic shifts in customer patterns but it is still hard to tell what normal will be because product moves off the shelves so quickly.

They did several hundred stores last year to improve macro space allocation and get the facings and inventory depth to drive volume. They will do hundreds more this year. What they call their GSR initiative is working very well for them and helping them address the sales per square foot opportunity they have in their highest-volume stores.

They have seen some improvement in the supply chain with some easing of pressure at their ports but they believe constraints will continue in the near term.

They are hoping to hire 100,000 people for the busy spring season. They look at labor costs and wages every month on a market by market basis. Applications are up considerably. They have been working to bring product in for spring since it is their busiest season. Last year they delivered 5.2 inventory turns, higher than the pre-pandemic level of 4.9 turns.

They look at investment spending of about 2% of sales overall. They do robust testing scenarios on most capital investments so they can see results before they roll out.

They had planned to invest in about 150 new supply chain facilities when they were planning pre-pandemic. Many of those facilities will be complete by the end of the year but some will take longer due to CV19 constraints as well as their recent acquisition of HD Supply. They expect to have 85 of the planned 100 Market Delivery Operations (MDOs) fully operational by the end of the year; there are handful open today but rollout is taking longer because they need to determine how legacy HD Supply assets factor into their broader supply chain plans.

Other News:

THD will hire more than 100,000 workers across its stores and warehouses as they gear up for the key spring selling season when demand for home improvement products peaks.

A THD cashier in Arizona used fake bills to steal about $400,000 from the store over the past four years. The scheme was discovered in December when THD asked the Secret Service to investigate. The funny money was purchased on Amazon (Amazon sells "Prop Money" 100 dollar bills that look realistic for party decorations, gag gifts and movie, television and theater props.)

Lowe's

Q4 sales rose 5.0% to $21.3 billion; comp sales rose 5%. FY21 sales rose 7.5% to $96.3 billion up from $89.6 billion for the prior fiscal.

Q4 and FY21 Conference Call with Analysts:

Comp sales rose 34.5% for the year and 35.2% in the US on a two-year basis. FY21 sales rose 6.9% on a comparable basis to $96.3 billion. About half of their sales growth in the second half of the year was due to product inflation.

They raised their sales outlook for 2022 to a range of between $97 and $99 billion, with comp sales ranging from down 1% to up 1%. They are forecasting a drop in unit sales offset by price. They are expecting unit sales to decline because over the past two years DIY customers made many purchases driven by the pandemic that they are unlikely to continue to make at that volume.

They believe they are well-positioned to gain a disproportionate share of the home improvement market. Higher commodity inflation than they planned for will push sales up slightly in the first half.

Comp average ticket rose 9.4% with higher sales in appliances, flooring and seasonal and outdoor living and 90 basis points of commodity inflation in lumber and copper.

Sales at Lowes.com grew 11.5% on top of the 121% growth compared to Q4 2020 which represents a two-year comp of 147% and nearly 11% sales penetration. While pleased, they believe there is tremendous upside to online sales.

Their Total Home Strategy continues to gain momentum and they are growing their share of wallet with both Pros and DIY customers.

Growth was broad-based across all product categories and customer segments both in-store and online. They delivered positive comps in all three merchandising divisions and across both Pro and DIY customers. Twelve of 15 merchandising departments delivered positive comps and all 15 departments grew more than 18% on a two-year basis.

Seasonal, outdoor living and lawn and garden delivered outstanding results as customers continue to enhance outdoor living spaces.

Pros who leverage their Loyalty and Credit offerings spend 300% more than Pros who don't. They are excited about the upcoming launch of their MVPs Pro Loyalty program and will be giving updates on this critical initiative throughout the year. Their Pro business accounts for 22% to 25% of sales and is delivering strong growth with 23% comps for the quarter and 54% on a two-year basis. Their Pros tell them business is better than they've ever seen it and they already have projects that will carry over into 2023.

They are actively piloting several GIG Network Solutions including partnering with Instacart in several markets for same-day DIY home delivery.

Their market-based delivery model means that big bulky products go from the supply chain directly to customers, replacing the old and highly inefficient store delivery model.

Continuing to expand their market based delivery system will free up space in their 10,000+ square foot back rooms, which on average are considerably larger than their competition's. They are also testing options to provide greater install fulfillment and expanded delivery alternatives for both Pro and DIY customers.

CEO Marvin Ellison shared his perspective on the home improvement market. They are encouraged by the strengthening millennial household formation trends that will support home buying and renovation in the coming years. Other favorable trends include baby boomers increasingly preferring to age in place and the continuation of remote work for some employees. More than 50% of homes in the US are more than 40 years old and will continue to require investments for upkeep. Approximately two-thirds of Lowe's annual sales come from repair and maintenance activity.

Innovative battery-powered products are helping them build on their number one position in outdoor power equipment. This category grew more than 37% for the quarter and more than 118% on a two-year basis.

Comps were very strong in the Building Products division, with broad-based and balanced growth. They will be adding a full range of CertainTeed roofing, insulation and gypsum products this year.

They continue to build out their Pro Power Tool program with the introduction of DeWalt's new POWERSTACK battery technology. They have a strong Pro brand arsenal that includes great brands like Bosch, Simpson Strong-Tie, Werner and Metabo.

They will be leaning very heavily into national brands on the Pro side. They believe that one of their strategic mistakes was relying too much on private label brands, particularly in fall-related categories.

They are continuing on their journey of being driven by every-day competitive pricing rather than promotions.

They are expanding their Lowes.com assortment to meet customer design and lifestyle needs. Their new Origin 21 patio collection includes replacement cushions made with 100% recycled plastic bottles. Their Livable Home collection offers products that help customers adapt to changing mobility needs as people age in place.

They are leveraging their Lowe's University In-Store Training Labs to provide the ongoing training that associates need to build skills and confidence and progress in their careers. Since 2018 they have invested well over $2 billion in incremental wage and equity programs for frontline associates. They expect to be even better positioned than last year from a hiring perspective.

They are working on more than twenty Product Improvement Initiatives (PPI) to improve store operations. They have launched a new Store Inventory Management System (SIMS) across all stores that gives associates real-time visibility to inventory in their stores, which will eliminate thousands of hours of non-productive time.

At year end, inventory was $17.6 billion, up $920 million from Q3 and consistent with their efforts to land spring products earlier. Their new coastal holding facilities on both the East and West coasts are allowing them to land import products early which elevates inventory on a temporary basis but greatly improves sell through.

Other News:

Lowe's launched an exclusive home décor brand targeted at millennials called Origin21. The line reportedly features clean lines, soft curves and natural and recycled materials. Products will initially include patio furniture and home décor accents lighting, seasonal, outdoor living and lawn and garden. They'll be available at Lowe's stores nationwide and at Lowes.com.

Walmart

Q4 sales rose 7.9% to $153 billion and comp sales in the US (excluding fuel) rose 5.6%. FY21 sales grew 9% to a record $568 billion.

Comparable sales rose 5.6% in the U.S. for the crucial holiday quarter against a tough comparable from a year ago when the increase in comp sales was 8.6%. Customer transactions were 3.1% higher during the quarter and average ticket was up 2.4%. Meanwhile, Sam's Club recorded a 10.4% jump in comparable sales off a 7.0% increase in transactions.

Walmart noted that US sales benefitted from stores being stocked and stronger foot traffic. Transaction volume rose 3.1% in Q4, helped along by Walmart administering CV19 vaccines.

Supply chain costs were more than $400 million higher than expected at the beginning of the quarter. Walmart had to hire many more associates than planned for in order to cover the huge increase in sick employees caused by the rapid spread of the Omicron variant.

Walmart's ecommerce growth slowed during Q4 as more sales shifted to physical stores. Long-time exec Tom Ward will take over the reins of Walmart's ecommerce business. They are focused on faster delivery and increasing the volume of products listed by third-party sellers.

Walmart is projecting slower growth this year along with lower costs associated with CV19. Comp US sales are projected to rise slightly more than 3%.

Ace Hardware

Ace stores nationwide hosted BBQ Kick-Off parties to demonstrate the latest from Weber, Traeger and Big Green Egg. Live grilling and new feature demonstrations took place in early February at participating stores. BBQ experts demonstrated the latest innovations including what to cook and how to cook it. Ace offers Ace Rewards members free assembly and delivery on all grills $399 and above. A report for Total Retail named Ace the fastest-growing BBQ grill retailer in America between 2019 and 2020.

Amazon

Amazon missed expectations for Q4 revenue but significantly beat earnings estimates. Revenue for Q4 rose 9% to $137.46 billion. Revenue grew 15% in Q3, 27% in Q2 and 44% in Q1. Excluding currency, net sales rose 10% in Q4. **Full year sales rose 22% to $469.8 billion.**

Amazon subscription services revenue rose 16% to $8.12 billion. Ad sales grew 33% to $9.7 billion. AWS revenue rose 40% to $17.8 billion as the cloud service division that was previously run by now CEO Andy Jassy continued on a solid growth curve.

Amazon had previously announced that they could have no operating profit at all in Q4 but got a big boost from their investment in Rivian electric-vehicle startup.

Amazon said costs over the holidays were driven up by several factors, including labor supply shortages and inflationary pressures which persisted into the first quarter. Shipping costs grew 10% to $423.7 billion in Q4, a big slowdown in growth from Q4 2020.

For Q1 Amazon projects revenue growth between 3% and 8% compared to Q1 2021.

Amazon raised the price for their popular Amazon Prime subscription, increasing the full-year subscription by $20 to $139 and the monthly subscription cost $2 to $14.99. They cited rising wages and transportation costs as well as expanding Prime perks. Amazon increased Prime's fee from $99 to $119 in 2018.

Amazon plans to more than double its base pay cap for US employees to $350,000 from its previous maximum salary of $160,000 for US employees. Amazon will increase the overall compensation range for most jobs globally. Last year Amazon increased the average starting wage for US operations staff to more than $18 an hour.

CANADA SNAPSHOT

Unemployment Rises to 6.5% in Jan

- The unemployment rate rose to 6.5% in January after falling to 5.9% in December. It was the first increase in unemployment since January 2021 when unemployment peaked at 9.4%.
- Employment fell by 200,000 jobs in January after seven months of job gains.
- Job losses were concentrated in the private sector and driven by Ontario and Quebec and were largest in foodservice and accommodations. construction adding 27,000 new jobs, the first increase since August 2021.
- Average hourly wages grew 2.4% year over year.
- Construction employment rose by 22,000 in January after increasing in December. Most gains were in Ontario.
- More people worked from home in January. About 25% of Canadians now work from home regularly at least part of the time.

Consumer Prices Rise 5.1%

The Consumer Price Index (CPI) rose 5.1% year over year in January after rising 4.8% in December. It was the first time the CPI has been over 5% since 1991, according to Statistics Canada. It was the tenth consecutive month that inflation has exceeded the Bank of Canada's (BoC) target range of 1% to 3%. Supply chain disruptions, extreme weather events and labour shortages all contributed to the increase. It was the first time that more than 68% of the items in the "basket" used to calculate prices rose by more than 3%. Shelter costs jumped 6.2%year over year. Gasoline remains the biggest single contributor to rising prices. The BoC is widely expected to raise interest rates at the beginning of March.

Housing and Construction News

Canadian housing starts fell 3% in January compared with December as a decline in multiple urban outweighed a gain in single-detached urban starts, according to Canada Mortgage and Housing Corporation (CMHC). The seasonally adjusted annualized rate of housing starts dropped to 230,754 units in January, below analyst expectations of 245,000 and down from a revised 238,405 units in December.

Home sales in January fell 10.7% to 33,166, according to the Canada Real Estate Association (CREA). On a seasonally adjusted basis, home sales in January were up 1.0% compared with December. The number of newly listed homes fell 11% month-over-month in January. The national average home price was a record $748,450 in January, up 21% from a year earlier. Excluding Greater Vancouver and Greater Toronto, two of Canada's most active and expensive housing markets, reduces the national average price by almost $160,000.

Retail Sales Fall 1.8%

Retail sales fell 1.8% to $57.0 billion in December after rising to $58.1 billion in November. Sales were down in 8 of 11 subsectors, representing 62.9% of retail trade. Core retail sales, which exclude gasoline stations and motor vehicle and parts dealers, fell 2.4% in December after rising 0.5% in November. It was the sharpest decline since April 2021. In volume terms, retail sales were down 2.5% in December. Retail sales were up 1.7% in the fourth quarter of 2021, marking the second consecutive quarterly increase. In volume terms, quarterly retail sales increased 0.4%.

Severe flooding in British Columbia and the Atlantic provinces in November 2021 damaged infrastructure and led to evacuations in affected regions, resulting in major disruptions to the business operations of retailers across the country.

Following four consecutive monthly gains, sales at building material and garden equipment and supplies dealers fell 5.0% in December. The decrease comes following higher sales in November, when this subsector experienced its fastest pace of growth (+5.0%) since March 2021. Despite the decrease in December, the level of sales in this subsector remained elevated compared with pre-pandemic levels recorded in December 2019. Sales decreased in every province for the first time since December 2020.

Retail Ecommerce Sales Fall 10.3%

On a seasonally adjusted basis, retail ecommerce sales fell 10.3% in December. On an unadjusted basis, retail ecommerce sales were down 14.2% year over year to $4.1 billion in December, accounting for 6.5% of total retail trade. The share of ecommerce sales out of total retail sales fell 1.7% compared with December 2020.

Retail Notes

Canadian Tire revenue rose 5.4% in the fourth quarter to $5.1 billion and comp sales grew 9.8%. FY21 revenue rose 9.6% to $16.3 billion. Canadian Tire now has a dedicated ship for the entirety of 2022 and has chartered three additional sailings for the first quarter. It is expecting higher rates for shipping containers to continue for the rest of this year and has locked in some shipping rates with transportation providers.

Walmart's comp sales in Canada were up 4.6%, led by in-store shopping and comps increased more than 13% on a two-year stack.

MARKET TRENDS

Popular Pandemic Renovation Projects

Spending on home improvement rose by an average of $745 per household in 2020, according to HomeAdvisor's 2021 State of Home Spending. The most popular projects among the 5,000 homeowners who participated in the survey were do-it-yourself endeavors which not only improved people's homes but gave them something useful to do during various stages of quarantine. The five most popular projects were interior painting (35%), bathroom renovations (31%), flooring (25%), landscaping (24% completed an average of 3.4 landscaping projects) kitchens (23%). Respondents reported that they used money they had initially planned to spend on vacations to fund their projects.

Lumber Forecast

Lumber prices are expected to decline about 29.2% this year after rising 38.7% in 2021, according to IHS Markit as reported in ENR. Lumber prices fell precipitously over the summer last year and demand cooled off significantly from spring highs. However, prices have zoomed up since, which analysts attribute to storms and excessive flooding that started in November in British Columbia. About 14% of US softwood lumber comes from BC, so fears about supply disruption triggered panic buying. Analysts expect the market to improve during the first quarter, bringing prices down. Meanwhile, tariffs were doubled on Canadian softwood lumber products. Tariffs rose to 17.99% from 8.99%. Construction economists say this increase will hit homebuilders the hardest because lumber is much more important to single-family construction than to multifamily and commercial.

Faster Growing Cities See Higher Home Prices and More Inflation

Consumer prices rose most rapidly in US metros seeing the largest influx of new residents. Conversely, prices rose less in some traditionally expensive areas such as the San Francisco-Oakland-Hayward metro, as well as the New York City, Boston and Washington DC metros. Among metro areas with more than 2.5 million people, the Atlanta area saw the highest inflation at 9.8% for the 12 months through December. Phoenix, St. Louis and Tampa also saw annual inflation rates higher than the 7% national rate in December. The pandemic-fueled population shift from larger cities to suburbs or smaller metro areas, particularly in the Sunbelt, was driven by both retiring baby boomers and remote workers seeking warmer weather and lower living costs. That influx helped drive up housing costs and job gains which boosted incomes and fueled demand for housing, transportation and services such as dining and entertainment. Housing costs accounted for almost one-third of the CPI in the Atlanta area and similar places last year. The CPI's shelter index measures the cost of tenants' rent and homeowners' inputted rent. The shelter index rose 10.2% in the Phoenix area and 7.7% in the Atlanta area late year; it was up 1.2% in the New York metro area and 0.8% in the San Francisco area. The index climbed 4.1% for the nation. The median sale price of homes in Atlanta rose nearly 23% in the year to December compared to the national increase of 15.2%. Prices rose 10.3% in the San Francisco area. The highest increase in the nation was in the Punta Gorda/Port Charlotte metro on Florida's western Gulf coast, where prices were up 28.7%.

Global Supply Chain Issues Drive Deals

Mergers and Acquisitions companies believe it will be another strong year for mergers and partnerships in the US and in Canada. There were more than 4,500 deals and mergers in Canada in 2021, worth about US$349 billion. Canadian economists and specialists expect 2022 to be another record-setting year. The supply crunch has challenged manufacturers on many levels who just can't find the products they need at a good price, or sometimes at all. It was a record-breaking year in the US as well, with $5.5 trillion in mergers and acquisitions during 2021. Analysts noted that businesses are flush with cash and capital markets are looking to continue the growth spurt through tech-driven transformation. In January 2022 there were $316 billion in deals, well above the long term median and showing no signs of slowing down. Major industry shifts toward innovation were evident in 2021 mergers and acquisitions, with $1.4 trillion in technology sector deals, the single largest group of transactions across sectors. Tech was behind trends in transportation and the drive toward electric vehicles; auto and transport deal value rose 113% to $396.4 billion. Sustainability goals and environmental responsibility are also spurring investments in the utility, power and energy industries.

What's Up with Inflation?

The Fed is widely expected to begin raising interest rates at their meeting in March, with a goal of raising rates by a total of 1.5% this year using a series of 0.25% increases. Some analysts think the Fed may kick off with an increase of 0.5%. However, nearly 75% of CEOs polled by the Conference Board said that the Fed's plan is unlikely to quickly cool inflation. Some 27% of CEOs expect to raise prices in the next six month and 45% plan to pass along cost increases in the next six to twelve months. The CEO Confidence Index fell eight points to 57 in the first quarter, marking the third consecutive quarterly decline. Just about half of CEOs expect the economic outlook to improve over the next six months, down from 61% who had a positive view last quarter.

Economists believe that inflation will stay well above the Fed's 2% target this year and will continue as long as companies struggle to keep up with consumers' surging demand for goods and services. Supply chain log jams are beginning to ease in some industries and the lack of government stimulus checks may slow demand. Wells Fargo expects the Consumer Price Index (CPI) to be hovering around 4% by the end of the year.

A metric known as the Misery Index, created by a top advisor to President Lyndon Johnson, uses a combination of the unemployment rate and the CPI's measures of inflation to create a single number. The lower the number, the happier consumers are. Right now the misery index is at 11.5, the highest level since the Great Recession. However, it was much higher in the 1970s and early 1980s and spent much of the 80s above 20. Inflation is hitting Americans right in the wallet, affecting how much they pay for everything from gas and groceries to big-ticket items such as automobiles. Shortages and having to settle for something that wasn't quite what you wanted contribute to the misery.

A recent CNN poll showed that three-quarters of those surveyed were worried about the economy in their own community and 63% said the nation's economy was in poor shape. More than 80% were worried about inflation. In some strange ways worrying about inflation contributes to it, as people rush to buy products before prices increase more or they disappear from shelves altogether.

Consumers think high inflation will be transitory, according to research released by the New York Fed. Despite all the headlines, consumers long-term expectations have been very stable since last summer. Consumers who were included in three Fed surveys through January expected inflation five years in the future to be running very close to 3%.

Where Are Employees Going?

Forty-one percent of professional service workers say they plan to look for a new job in the first half of the year, according to a recent survey by Robert Half staffing, up from 32% who intended to search in the second half of 2021. And 28% of the workers planning to job hunt would quit without having a new position lined up.

Staffing companies are reporting that a rising share of new hires quit their jobs after less than a month. Some object to employers increasing the number of days they're expected to be in the office. In the current environment, employees don't feel as if they need to stick with a job if it doesn't feel right to them, as they believe they can easily get another one.

Even though openings are at record highs, many workers are still outside the labor force. Some parents are caring for kids because they can't find or afford childcare. Other people are afraid of contracting COVID-19, especially with the more infectious but milder variant now dominant. And many people can delay their return to the workforce because they still have ample savings from unemployment benefits and stimulus checks.

Many employers are bumping up wages and offering signing bonuses and other perks to lure workers from other companies. Employees, in turn, are switching jobs in unprecedented numbers to take advantage of the many job openings and higher pay.

Why Workers are Leaving Work

Fifty-four percent of workers surveyed by ZipRecruiter in September said they preferred a job that let them work from home. Only about 10% of jobs offer that option, though that's up from 3% before the pandemic, according to ZipRecruiter chief economist Julia Pollak. Many employees are also quitting jobs that don't allow them to work from home at least some of the time.

Pandemic Burnout. Nineteen percent of workers said they're unhappy with how employers treated them during the pandemic. This could include those who burned out after being forced to work long hours while colleagues were out or those in stressful industries such as health care. On the flip side, that means that 81% of workers were satisfied with how they were treated.

Pandemic Opportunity. Twenty percent of workers surveyed by Joblist quit jobs to pursue new career paths and their passions. Thirteen percent of workers quit because their jobs didn't provide work-life balance. One-third of workers quit jobs to launch businesses, according to a Digital.com survey shows.

