BOSCH

Market Briefing

Content

US ECONOMY

Consumer Spending Rises 0.2%

Consumer Prices Rise 0.3%

Consumer Confidence Falls to 106.7

Unemployment Rises to 3.9%

Chicago PMI Falls to 44.0

Wholesale Prices Rise 0.3%

Q4 GDP Revised Down to 3.2%

HOUSING & CONSTRUCTION

Builder Confidence Climbs to 48

Building Permits Fall 1.5%

- Single-family permits rise 1.6%

Housing Starts Fall 14.8%

- Single-family starts fall 4.7%

New Home Sales Rise 1.5%

Existing Home Sales Rise 3.1%

Regional Housing Stats

Mortgage Rates Rise to 6.9%

POWER TOOL INDUSTRY

Robert Bosch Tool Corporation

- Expands their portfolio of North American power tools
- Launches new website dedicated to Pros

Stanley Black & Decker

- Q4 revenue falls 6.3% to $3.74 billion
- Q4 conference call with analysts

Makita

- Disappointing North American sales

RETAIL

Retail Sales Fall 0.8%

The Home Depot

- Full year sales fell 3% to $152.7 billion. Comp sales fell 3.2% overall and 3.5% in the US.
- Q4 sales fell 2.9% to $34.79 billion, Comp store sales fell 3.5% overall and 4.0% in the US.
- Conference Call with Analysts

Lowe's

- Q4 sales fell 17% to $18.6 billion and comp sales fell 6.2%.
- For 2023, net sales fell 11% to $86 billion.

Walmart

- Five year store expansion plan
- Plans to buy Vizio
- Plans to triple sourcing from India

Ace Hardware

- Q4 revenue drops 3.0% to $2.1 billion and full year revenue falls 0.4% to $9.1 billion.

Amazon

- 2023 sales rise 12% to $574.8 billion. North American sales rise 12% to $352.8 billion.
- Q4 net sales rise 14% to $170 billion. Q4 sales in North America grew 13%.
- Expands Venture Capital Fund
- Introduces new ad tool and digital shopping assistant.

CANADA SNAPSHOT

Economy

Housing & Construction

Retail

MARKET TRENDS

Housing & Home Improvement Forecast

Housing Affordability and New Index

What Lies Ahead for Interest Rates

Softwood Lumber Tariffs Could Rise

Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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US ECONOMY

Exchange Rates February 29, 2024

Euro	1 Euro = $1.081	$1.00 = 0.925 Euros
Canadian Dollar	1 CAD = $0.737	$1.00 = 1.357 CAD
Japanese Yen	1 Yen = $0.007	$1.00 = 149.894 Yen
Chinese Yuan	1 Yuan = $0.139	$1.00 = 7.187 Yuan
Mexican Peso	1 Peso = $0.059	$1.00 = 17.063 Pesos

Market Watch February 29, 2024

DOW	38,996	1.8%
NASDAQ	16,092	5.2%
S&P 500	5,096	4.6%

Stocks turned in their fourth consecutive winning month as investors cheered the latest rounds of economic news and corporate earnings.

Consumer Spending Rises 0.2%

Consumer spending rose 0.2% in January after jumping an upwardly revised 0.6% in December. Adjusted for inflation, real consumer spending fell 0.1%. Spending on services rose 0.4% after rising 0.5% in November. Spending on goods overall fell 1.1% in January after slipping 1.9% in December. Economists had expected spending to be flat, due to the traditional "holiday hangover" and the big 0.8% drop in January's retail sales.

Consumer Prices Rise 0.3%

The Consumer Price Index (CPI) rose 0.3% in January after rising 0.4% in December and holding steady for the previous two months. The increase was higher than expected. The CPI was up 3.1% year over year for the second consecutive month. Core prices were up 0.4% after being up a downwardly revised 0.2% in December instead of the 0.3% first reported and were up 3.9% year over year. The increase was higher than expected and dashed the hopes of investors who were speculating the Fed might lower rates this spring. The core CPI inflation rate peaked at a 40-year-high of 6.6% in September 2022. The personal consumption expenditures (PCE) price index rose 0.3% in January after rising 0.1% in December; core PCE rose 0.4% after rising a downwardly revised 0.1% in January. In the 12 months through January, the PCE price index increased 2.4%, the smallest increase since February 2021. Inflation peaked at 9.1% in June 2022.

Consumer Confidence Falls to 106.7

- The New York-based Conference Board's Consumer Confidence Index fell to 106.7 in February after rising to a downwardly revised 110.9 in January.*
- The Present Situation Index fell to 147.2 in February after rising to a downwardly revised 154.9 in January.
- The Expectations Index fell to 79.8 in February after rising to a downwardly revised 81.5 in January. A level of 80 or below historically indicates consumers expect a recession.
- Consumers are less concerned about food and gas prices but more concerned about the labor market.
- Consumer Confidence 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.

BOSCH Invented for life

Unemployment Rises to 3.9%

- The unemployment rate rose to a two-year high of 3.9% at the end of February after being at 3.7% for the previous three months. Unemployment was 3.5% at the beginning of the pandemic in March 2020.
- The economy added 275,000 new jobs after gaining a downwardly revised 229,000 new jobs in January. It was the 38th consecutive month of job growth.
- Most sectors added jobs, with retailers adding 19,000 jobs and construction adding 23,000.
- Average hourly wages rose by just 0.1% month over month and annual wage growth was 4.3%.
- Unemployment has been below 4% for 25 consecutive months for the first time since 1967.

Chicago PMI Falls to 44

The Chicago PMI fell to a seven-month low of 44 in February after dropping to 46 in January; the PMI has fallen nearly 14 points in the past three months. Looking back to when the series began in 1967, the PMI has ranged from 20.7 in June 1980 to 81.0 in November 1973.

Wholesale Prices Rise 0.3%

The Producer Price Index (PPI) rose 0.3% in January after falling 0.1% in December and was up 1.0% year over year. Stripping out volatile food and energy prices, core PPI rose 0.6% in January after rising 0.2% in December and was up 0.9% year over year after being up 2.5% in December. PPI peaked at an 11.7% year-over-year increase in March 2022.

Q4 GDP Revised Down to 3.2%

Fourth quarter GDP growth was revised down to 3.2% from the 3.3% first reported; while the first reading was well ahead of expectations of 2.0% growth, economists had not expected GDP to be revised. The slight downward revisions was primarily due to downward revisions in personal income and savings and less business investment in inventories. Consumer spending was revised up from 2.8% growth to 3.0%. The core PCE deflator, which Fed officials view as the best measure of the underlying pace of consumer price inflation, rose slightly more than initially reported, coming in at 2.1% instead of 2.0%.

GDP will rise about 2.2% this year, according to the latest upwardly revised forecast from the National Association of Business Economists. The Fed expects GDP to rise about 1.4% this year, but may raise their forecast at their next meeting in light of recent economic news.

HOUSING & CONSTRUCTION

Builder Confidence Climbs to 48

Builder Confidence rose four points to 48 in February after rising seven points to 44 in January, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). It was the third consecutive month of increases. All three of the major HMI indices posted gains in February. The HMI index charting current sales conditions increased four points to 52, the component measuring sales expectations in the next six months rose three points to 60 and the component gauging traffic of prospective buyers increased four points to 33. Confidence rose in all regions for the first time in many months. 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 January to 1.47 million units after rising 1.9% in December. **Single-family permits rose 1.6%** to 1.02 million annual units after rising to 994,000 annual units in December. Multifamily permits dropped 7.9% to 355,000 annual units after rising to 501,000 units in December. Regional permit issuance was mixed.

Housing Starts Fall 14.8%

Housing starts fell 14.8% in January to a seasonally adjusted annual rate of 1.33 million units after falling to 1.46 million units in December. **Single-family starts fell 4.7%** to 1.0 million units after falling to 1.03 million units in December. However, single-family starts were up 22% from January 2023. The number of apartments under construction dipped below 1 million for the first time since May 2023, with additional declines expected in 2024. In contrast, the number of single-family homes under construction stood at 680,000 in January, matching the best reading since June 2023. Multifamily starts fell 35.6% to an annualized pace of just 327,000 units after rising to 402,000 units in December. Multifamily starts are typically very volatile.

New Home Sales Rise 1.5%

New home sales rose 1.5% in January to a seasonally adjusted annual rate of 661,000 after rising to a downwardly revised 651,000 homes in December, according to the National Association of Home Builders (NAHB). Sales were up 1.8% from January 2023. Sales for October and November were also revised down. New single-family home inventory in January remained elevated at 456,000 new homes, up 3.9% compared to January 2023, an 8.3 months' supply at the current building pace. About a six months' supply is considered balanced. The median new home sale price in January was $420,700, up 1.8% from December, but down 2.6% compared to a year ago. 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 3.1%

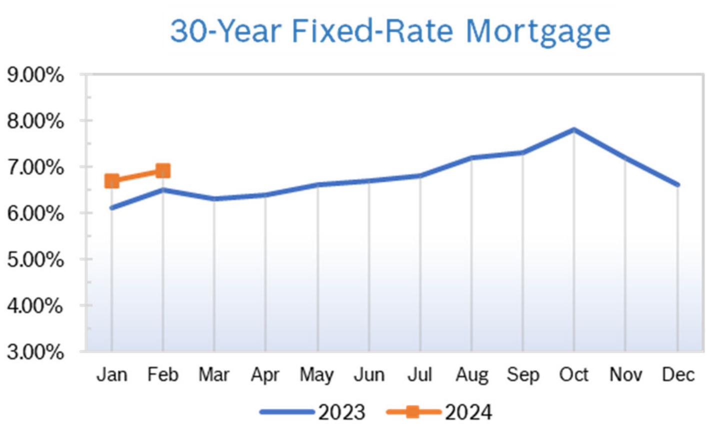
Existing home sales rose 3.1% in January to a seasonally adjusted annual rate of 4.0 million after falling to 3.78 million homes in December, according to the National Association of Realtors. Sales were down 1.7% from January 2023. The median existing-home sales price rose 5.1% year over year to $379,100, leaving year-over-year prices below $400,000 for the fifth consecutive month. The inventory of unsold existing homes rose 2% to 1.01 million homes, a 3.0 months' supply at the current sales pace, down from 3.2-months in December. A chronic shortage of existing inventory is spurring new home construction and sales despite continuing high prices. Year-over-year prices were up in all regions.

Regional Housing Data

	Northeast	**South**	**Midwest**	**West**
Builder Confidence*	57 (+3)	46 (+5)	36 (+2)	32 (+2)
Building Permits*	19.4%	-7.0%	6.6%	1.5%
Housing Starts**	-20.6%	-9.7%	-30.0%	-15.7%
New Home Sales**	4.9%	-13.5%	-4.1%	5.7%
Existing Home Sales**	- 5.9%	-1.6%	-3.1%	2.8%

* change YTD **change YOY

Mortgage Rates Rise to 6.9%



- 30-year fixed-rate mortgages inched up to 6.9% at the end of February after holding steady at 6.7% in January. Mortgage rates were 6.6% at the end of February 2023.
- The recent boomerang in rates has pushed uneasy potential homebuyers back to the sidelines even though home prices continue to rise and inventory remains in short supply.

POWER TOOL INDUSTRY

Robert Bosch Tool Corporation

Bosch intends to invest in expanding their portfolio of portable power tools and also expand their North American business. At the same time, the company will be streamlining operations and continue to work to reduce materials costs and improve efficiency.

Bosh Power Tools launched a revamped website that brings an enhanced user experience with simpler navigation and improved speed. Boschtools.com introduces new features for the worker, including ten specialized trade pages showcasing industry-specific products and upgraded variant filtering on Accessory product detail pages.

Stanley Black & Decker

Q4 revenue fell 6.3% to $3.74 billion due to lower sales of outdoor products and DIY products. Despite falling sales, profits beat forecasts due to cost-cutting measures and inventory reduction.

Conference Call with Analysts:

SB&D delivered more than $1 billion in savings to date and remains on track to achieve the $2 billion in savings targeted by the end of 2025.

Strong free cash flow generation was primarily the result of $1.1 billion of inventory reduction achieved through implementing supply chain initiatives.
They expect the sale of their infrastructure business to close by the end of the first quarter.

2024 will be the next chapter in their transformation. It will be a transitional year as they continue to strengthen their foundation to create greater future earnings power.

They will remain focused on improving margin, earnings and cash flow by delivering differentiated product innovation through their portfolio of leading brands, implementing cost efficiency measures within their control and driving share gain in their core markets.

They expect relative strength and demand from professional tools and portions of their industrial markets. However, they believe the consumer and outdoor demand trends will continue to be weak.

They will focus on the pro user and the healthiest market segments to generate share gains and continue to implement supply chain cost improvements.

Tools & Outdoor Q4 revenue fell 8% organically to approximately $3.2 billion as a result of lower volumes, primarily from soft consumer outdoor and DIY market demand. Price remained flat.

They made substantial progress improving profitability for the T&O segment through the year, driving adjusted segment margin to 10% in the fourth quarter.

Organic revenue for hand tools declined 6%, while power tools was up 1 point organically as pro-driven momentum offset pressures in DIY demand.

Power tools organic performance improved each quarter in 2023 and finished the year in a growth position. North America was down 10% organically with the tools product lines down low single digits. The commercial and industrial channel, which has a heavy professional user base, grew low single digits organically.

Fourth quarter US retail point-of-sale demand remained negative compared to 2022 but was above 2019 levels, supported by price increases and strength in professional tools.

They have identified approximately 85,000 SKUs for discontinuation and are assisting customers as they transition to replacement products.

They successfully eliminated more than 45,000 SKUs by the end of 2023, with more expected in 2024. These actions are expected to generate approximately $0.5 billion of savings in 2024. They will use the savings to fund additional growth investments in core business.

They plan to reduce inventory by $400 million to $500 million in 2024 and continue to prioritize working capital efficiency.

They will continue to invest for long-term organic growth

and share gain throughout 2024 and plan to invest an incremental $100 million in innovation and field and marketing resources to support their DeWalt, Craftsman and Stanley brands.

They will continue to develop centers of excellence for power tools, certain types of hand tools, certain types of outdoor products that leverage the expertise they have in Asia, Mexico, the United States and Eastern Europe.

They expect a level of promotional activity that is consistent with 2019, which they feel is back to a healthy balance of normal core operating selling activities and promotional activities.

Their customers are not really talking to them about unusual levels of promotional activities, just looking for the norm. That should continue to be the case if demand remains steady.

Makita

Makita noted that North American sales, mainly at home improvement stores, were down 20.8% year over year.

Makita USA had company-wide layoffs in mid 2023, following several price increases over the span of two years. The company tried new things for the 2023 holiday shopping season, including mail-in rebates. According to market watchers, there were considerably fewer Makita cordless power tool promotions over the 2023 holiday shopping season compared to previous years. Makita USA also made far fewer product announcements than normal and has stopped issuing press releases and started relying only on social media.

RETAIL

Retail Sales Fall 0.8%

Retail sales fell 0.8% in January after rising a downwardly revised 0.4% in December, according to the Commerce Department. Economists had expected sales to decline 0.1%. Falling gas prices helped free up cash and holiday spending was brisk. Retail sales were up 2.2% year over year. Excluding automobiles, gasoline, building materials and food services, core retail sales dropped 0.4% in January after rising a strong 0.8% in December and were up 3.1% year over year. Building materials and garden supply store sales fell a steep 4.1% after rising in December. Online sales fell 0.8%. Core retail sales, which are mostly goods and not adjusted for inflation, correspond most closely with the consumer spending component of GDP. 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

Q4 sales fell 2.9% to $34.79 billion, slightly ahead of expectations. Comp store sales decreased 3.5% overall and 4.0% in the US, as big-ticket transactions, defined as transactions over $1,000, dropped 6.9%.

Full year sales fell 3% to $152.7 billion. Comp sales fell 3.2% overall and 3.5% in the US. Both Q4 and full year results were largely in line with expectations.

For this fiscal, THD expects sales to rise 1% and comp store sales to drop 1%.

Q4 and Full Year Conference Call with Analysts:

Building materials and outdoor garden departments posted positive comps, and 6 of the remaining 12 merchandising departments posted comps above the company average, including appliances, plumbing, tools, paint, indoor garden and hardware.

Q4 comp transactions decreased 2.1% and comp average ticket decreased 1.3%. However, customers continue to trade up for new and innovative products. Transactions and average ticket are beginning to equalize; that is their definition of a balanced normal market.

Deflation from core commodity categories shaved 35 basis points off average ticket during the fourth quarter, driven by deflation in lumber and copper wire.

Q4 Pro and DIY sales were relatively in line with one another. Their internal and external surveys suggest that Pro backlogs are lower than they were a year ago but are stable and elevated relative to historical norms.

Online sales leveraging their digital platforms increased approximately 2% compared to the fourth quarter of last year.

THD described 2023 as a year of moderation and opportunity. They focused on several operational improvements to strengthen the business while still investing in the growth opportunities they detailed during their June investor conference.

They successfully invested approximately $1 billion in their associates by increasing annualized compensation for frontline hourly associates. That allowed them to improve customer service and attract and retain the most qualified talent, drive greater efficiency and productivity across the business and broadly improve safety.

They started the year with more inventory than they prefer and worked throughout the year to reduce inventory while achieving the highest in-stock and on-shelf availability since the pandemic.

They acquired Construction Resources in December as part of their commitment to strengthen their Pro business. Construction Resources is a leading distributor of design-oriented surfaces, appliances and architectural specialty products for Pro contractors focused on renovation, remodeling and residential homebuilding.

The acquisition of Construction Resources will allow complex Pros to easily shop across aesthetic product categories in a showroom setting, which is how they are accustomed to shopping for those types of goods.

They will continue building out new capabilities for the complex Pro this year. They plan to expand their assortments, fulfillment options and outside sales force and recently began piloting credit options for Pros.

They will also continue to work on new order management capabilities to better manage complex Pro orders and plan to have 17 of their top Pro markets equipped with new fulfillment options, localized product assortments, an expanded sales force and enhanced digital capabilities by the end of the year.

More job site delivery orders fulfilled from their distribution centers mean less congestion in stores and less time dedicated to picking, packing and staging orders for delivery. That gives their in-store Pro sales associates more time to dedicate to serving Pros.

The ability to fulfill large orders through their distribution network also means they have more product in-stock and available for sale for all those Pros shopping in their stores.

They are focusing on improving the post-sale experience for customers, the process for which has largely been unchanged for the past 44 years.

In 2023, they made significant progress taking friction out of their online order management process. Now customers can more easily modify orders and also complete self-service online returns and return products by mail or in-store.

In fiscal 2023 they opened 13 new stores, 8 in the US and 5 in Mexico. In the US the 8 new stores were roughly split between stores they opened in order to relieve pressure on higher-volume existing stores and stores in new high-growth areas. They plan to open 12 new stores this year.

They saw continued softness in certain big-ticket, discretionary purchases as customers focus on smaller projects and defer larger ones. Big-ticket comp transactions, or those over $1,000, were down 6.9% compared to the fourth quarter of last year.

This year they will be focusing on expanding their lineup of cordless outdoor tools for Pros and cordless power tools of all varieties for their Spring Gift Center.

Other News:

The Home Depot ranked #1 in Fortune's specialty retailer category and moved up one spot to #19 overall on Fortune's new list of America's 2024 Most Admired Companies. Fortune worked with Korn Ferry to review 1,500 businesses and determine the best-regarded companies across 52 industries. The team surveyed executives, directors and analysts to rate enterprises in their own industry on various criteria, from investment value and quality of management and products to social responsibility and ability to attract talent.

THD likened the effects of the pandemic to a giant, nationwide hurricane that spurs tremendous growth followed by periods of moderation followed by another cycle. If the pandemic plays out over a five-year period like a giant national storm, the coming years will be very positive for the industry.

Lowe's

Q4 sales fell 17% to $18.6 billion and comp sales fell 6.2%, less than analysts expected. Prior-year quarterly sales included approximately $1.4 billion from the additional 53rd week in the reporting period, as well as $958 million generated from the sale of Lowe's Canadian retail business.

For 2023, net sales fell 11% to $86 billion. However, annual earnings increased 20% and profits were also up compared to 2022.

Walmart

Walmart plans to build or convert 150 new stores over the next five years and remodel existing stores. That's a big change from 2016 when Walmart announced they were cutting back on expanding brick and mortar store in order to focus more on their online business and become more competitive with Amazon. Walmart has not opened a new US store since 2021.

Walmart is reportedly in talks to buy TV maker Vizio for more than $2 billion, which would give WM many more opportunities to sell advertising and pitch products for Walmart and Sam's. Walmart and Sam's have been Vizio's largest customers. Most of Walmart's US revenues come from the grocery business, which is traditionally low margin. Last year WM reported about $2.7 billion in global advertising revenue, which is a much higher margin business. Roku has 25% of the connected TVs operating systems, Amazon accounts for 17% and Vizio makes up 8%, according to Parks Associates. Buying Vizio will give Walmart access to a powerful TV operating system and more ad inventory and ad viewership data.

Walmart plans to triple the amount of goods they source from India, to about $10 billion annually by 2027. WM has sourced about $30 billion in goods from India over the past 25 years. WM is reportedly focused on finding new, price-competitive suppliers.

Ace Hardware

Q4 revenue dropped 3.0% to $2.1 billion and full year revenue fell 0.4% to $9.1 billion. CEO John Venhuizen said results were disappointing, but entirely due to lower sales of winter goods due to the very mild weather in December.

Q4 comp retail sales fell 5.2%, due to a 3.2% decline in comp store transactions and a 2.0% drop in average ticket, according to the approximately 3,700 domestic Ace stores that share daily sales data. For the full year, comp store retail sales fell 2.2%, due to a 1.1% decrease in comp store transactions and a 1.0% decline in average ticket.

Amazon

Amazon's annual sales jumped 12% to $574.8 billion in 2023. Amazon's North American sales rose 12% to $352.8 billion. Q4 net sales increased 14% to $170 billion. Q4 sales in North America grew 13%. Amazon expects sales to grow 8% to 13% during the first quarter of 2024. Black Friday and Cyber Monday sales set all time records.

Amazon's $1 billion dollar venture capital fund is gearing up after a slow start. Industrial Innovation was first introduced in April 2022, but couldn't agree on which startups to fund. The fund has since made several investments in robotics and automation startups with technologies that are deployed in warehouses. Now Amazon is looking to support transportation companies that can help improve the performance of its sprawling logistics network.

Amazon introduced new ad tools to help brands connect with consumers, including a generative AI solution to produce lifestyle imagery and make ads more engaging; a sponsored TV offering that lets brands run streaming TV ad campaigns with no minimum spend on Amazon Freevee, Twitch, and third-party streaming services; and new capabilities that include enhanced audience insights and optimization controls.

Amazon has introduced a digital shopping assistant named Rufus that is in beta test in selective markets and will be rolled out later this year. Shoppers can ask Rufus the questions they likely already ask Google, such as "What to consider when buying headphones?" or "What are clean beauty products?" and receive helpful information to guide their shopping mission. Rufus can also answer questions about specific products.

Amazon is being added to the Dow Jones Industrial Average. They'll replace Walgreens Boots Alliance on the popular stock index. The shift was prompted by Walmart's decision to do a 3 for 1 stock split, which reduces the stocks weighting in the index.

Amazon is expanding their Ships in Product Packaging program, which allows certain goods to ship in the packaging they are stored in to eliminate what Amazon calls "packaging redundancy," which translates to one sturdy cardboard box inside another, which virtually doubles the amount of cardboard headed to recycling or worse, to a landfill. Sellers are eligible for the program if they ship larger products that are already packaged in sturdy containers. Amazon will offer sellers that qualify incentives that allow them to save money on fulfillment costs. Amazon has traditionally shipped just 11% of products in their own packaging but expects that percentage to rise over time.

CANADA SNAPSHOT

Unemployment Rises to 5.8%

- The unemployment rate rose to 5.8% in February after dropping to 5.7% in January.
- Unemployment reached a record low of 4.9% in June and July 2022. In January 2021 unemployment peaked at 9.4%.
- The economy added 41,000 jobs in February following a similar gain in January.
- Average hourly wages rose 5.0% $34.82 in February after rising 5.3% in January (not seasonally adjusted).
- Wage growth will need to cool down in order to bring down inflation. The BoC will not start lowering rates until inflation cools off.
- Employment was up in Alberta and Nova Scotia and declined in Manitoba. Employment was little changed in other provinces.

Consumer Prices Rise 2.9%

Consumer prices rose 2.9% year over year in January after rising 3.4% in December. It was the fourth consecutive monthly increase in consumer prices. Core CPI continued to slow, falling to 3.2% in January from 3.5% in December, according to Statistics Canada. On a monthly basis, consumer prices were unchanged in January after falling 0.3% in December.

Housing and Construction News

Housing starts fell 10% in January to 223,589 annual units after rising 249,255 units in December, according to Canada Mortgage and Housing Corp. (CMHC). The trend measure, a six-month moving average of the monthly seasonally adjusted annual rate of housing starts, fell 2% to 244,827 units in January. Despite the drop in the trend measure, actual starts were up 13% year over year, driven by high multiunit starts, particularly in Toronto.

Canadian home sales rose 3.7% in January after rising a downwardly revised 7.9% in December, according to the Canada Real Estate Association (CREA). It was the second consecutive monthly increase after seven months of falling sales. The association said prices would remain flat in Ontario, the country's largest real estate market, as well as in British Columbia.

GDP Grows 1.0%

GDP grew 0.1% in the fourth quarter of 2023 after dropping 0.5% in the third quarter, allowing the Canadian economy to avoid slipping into recession. Statistics Canada estimates the economy grew 0.4% in January. Exports of goods and services rose at an annualized pace of 5.6% in the fourth quarter, driven by crude oil and bitumen. Consumer spending rose by an annualized 1.0%, but per-capita consumption fell for the third consecutive quarter. The overall increase in spending was led by higher spending on new trucks, vans and utility vehicles as supply chain issues eased up and back orders were fulfilled. Real business investment fell for the sixth time over the previous seven quarters and businesses also slowed their investments in inventories, which created a drag on growth. Final domestic demand – a metric that includes household and government consumption, along with capital investments, fell at an annualized rate of 0.7%. Analysts noted that economic conditions are frail in Canada, and that overall numbers are being propped up by a resilient US economy.

Consumer Prices Rise 2.9%

The Consumer Price Index (CPI) rose 2.9% year over year in January after rising 3.4% in December. Much of the decline was due to falling gasoline prices. On a monthly basis, the CPI was unchanged in January after rising 0.3% in December. Consumer prices were up 2.9% year over year after being up 3.4% year over year in December.

Retail Sales Rise 0.9%

Retail sales increased 0.9% in December to $67.3 billion in December after falling to $66.6 billion in November**.** Core retail sales, which exclude gasoline stations and fuel vendors and motor vehicle and parts dealers, were up 0.5% in December. In volume terms, retail sales increased 0.8% in December.

Retail sales were up 1.0% in the fourth quarter of 2023, marking a second consecutive quarterly increase. In volume terms, retail sales increased 1.3% in the fourth quarter. Retail sales increased in eight provinces in December, led by Ontario and British Columbia.

In 2023, retail sales increased 2.2%, led by gains at motor vehicle and parts dealers. In volume terms, sales were up 2.3% in 2023.

Retail sales rose 2.2% in 2023 to $794.4 billion in sales, with increases in five of nine subsectors. Core retail sales increased 2.4% in 2023.

Retail Ecommerce Sales

Retail ecommerce sales fell 3.6% to $3.7 billion in December, accounting for 5.5% of total retail trade, compared with 5.8% in November.

Retail Notes

Fourth-quarter revenue fell by 16.8% to $4.4 billion compared to Q4 2022. Full-year revenue fell by 6.4% to $16.7-billion.

Across Canadian Tire's retail banners, Q4 comparable sales fell 6.8%. Canadian Tire estimated that the weather accounted for about half of the overall sales decline. For the full year, comparable sales fell by 2.9% or 3.1% excluding petroleum.

MARKET TRENDS

Housing & Home Improvement Forecast

NAHB forecast that single-family starts will rise about 5% this year, assuming that the Fed will cut rates in the latter half of 2024. However, as builders break ground on more homes, lot availability is expected to be a growing concern, along with persistent labor shortages.

The 10-year Treasury rate, used as a basis for mortgage rates, is up more than 40 basis points since the beginning of the year. Mortgage rates have generally been below 7% since mid-December, and more builders are cutting back on reducing home prices to boost sales.

Price Cutting and Incentives. In February, 25% of builders reported cutting home prices, down from 31% in January and 36% in the last two months of 2023. The average price reduction in February held steady at 6% for the eighth straight month.

The use of sales incentives is also diminishing. The share of builders offering some form of incentive dropped to 58% in February, down from 62% in January. It was the lowest since percentage using incentives since last August.

Rising Home Values. Home values are up more than 46% since 2019 and equity is up close to 70%, but turnover has dropped sharply. That equity level, which amounts to a $10 to $12 trillion increase since the pandemic, has not been tapped. Both HELOCs and cash-out refinancings have fallen to multiple years lows as interest rates have risen over the last 2 years. That means there is a tremendous amount of money available if consumers choose to tap into it.

Aging Housing Stock, Rising Home Usage. More than 50% of homes are now at least 40 years old. That means those homes need frequent repairs and renovations whether the owners want to continue to live in them or sell them. While many people have gone back to the office, many more are still working from home, at least part of the time, so many homes need to be remodeled to accommodate working from home.

Inventory Shortage. Estimates of the chronic inventory shortage of existing homes range from 2 million to 6 million units, and production of new homes is not coming close to keeping up with demand. Estimates for production this year show that 200,000 fewer homes will be constructed than are needed to meet demand.

Millennials Aging Into Market. Millennials are just a year or two away from becoming the single biggest segment for household formation, home buying and home improvement spending.

Housing Affordability and New Index

Housing affordability in the fourth quarter of 2023 was virtually unchanged. Mortgage rates that hit more than a 20-year high, coupled with elevated construction costs and excessive regulatory costs, left housing affordability holding near its lowest level in more than a decade.

Only 37.7% of new and existing homes were affordable to families earning the US median income of $96,300 during the fourth quarter, according to the National Association of Home Builders (NAHB)/Wells Fargo Housing Opportunity Index (HOI), That is nearly identical to the 37.4% posted in the third quarter of last year, which was the lowest reading since NAHB began tracking affordability on a consistent basis in 2012.

The fourth quarter also marks the final report of the long-running HOI series. Replacing the HOI in the first quarter of this year will be a new housing affordability index from NAHB called the Cost of Housing Index (CHI), a quarterly analysis of housing costs in the US and metropolitan areas. The CHI represents the share of a typical family's income needed to make a mortgage payment. A low-income CHI will also be produced for families earning only 33% of the area's median income.

What Lies Ahead for Interest Rates?

Fed minutes from their meeting in January show that the central bank remains concerned that inflation could stay stubbornly high. That could keep interest rates at 23-year high for longer than previously expected, affecting Americans' borrowing costs on everything from car loans to mortgages. In January, the Fed held rates steady for the fourth consecutive meeting. Fed Chair Jerome Powell said it is too soon to declare the war on inflation has been won. Fed officials typically want to use data from several months to guide them in making interest rate decisions. With the unexpected jump in the CPI in January, the Fed may want to wait for several months of steady or falling prices.

The Fed typically cuts interest rates if the economy deteriorates sharply, pushing up unemployment, or if it's clear that inflation is under control and rates don't need to remain elevated. By keeping rates high as inflation slows the Fed could put an unnecessary stranglehold on the economy. The Fed has repeatedly signaled they want to avoid cutting rates too quickly, but still confirmed three rate cuts this year is a "reasonable baseline."

Fed officials look at the US economy broadly when setting policy, including economic growth, the state of the job market and consumption. The Atlanta Fed is currently projecting first-quarter GDP to grow at a robust 2.9%.

Softwood Lumber Tariffs Could Rise

The US Department of Commerce has signaled that they plan to raise tariffs later this year on imports of Canadian softwood lumber products from the current rate of 8.05% to about 14%. NAHB has staunchly fought against lumber tariffs for years because they say tariffs have a detrimental effect on housing affordability. In effect, the lumber tariffs act as a tax on American builders, home buyers and consumers.

NAHB has vowed to continue to call on the Biden administration to suspend tariffs on Canadian lumber imports into the United States and to move immediately to enter into negotiations with Canada on a new softwood lumber agreement that will eliminate tariffs altogether.

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