BOSCH

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Bosch | Dremel

RotoZip | Vermont American

CST/berger | freud | Sia

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US ECONOMY

Exchange Rates August 31, 2023

Euro	1 Euro = $1.084	$1.00 = 0.922 Euros
Canadian Dollar	1 CAD = $0.738	$1.00 = 1.354 CAD
Japanese Yen	1 Yen = $0.007	$1.00 = 145.708 Yen
Chinese Yuan	1 Yuan = $0.140	$1.00 = 7.254 Yuan
Mexican Peso	1 Peso = $0.059	$1.00 = 16.892 Pesos

Market Watch August 31, 2023

DOW	34,722	- 2.4%
NASDAQ	14,035	- 2.2%
S&P 500	4,508	- 1.8%

All three major indexes broke months' long winning streaks and finished the month of August down modestly despite positive economic news. September is typically the worse month of the year for markets.

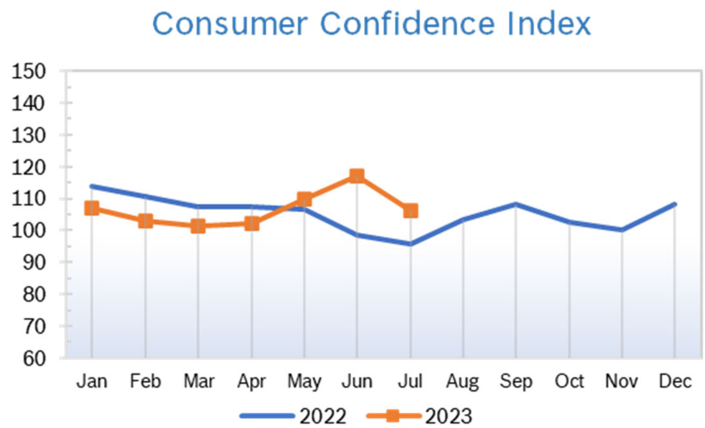
Consumer Spending Rises 0.8%

Consumer spending rose a robust 0.8% in July after jumping an upwardly revised 0.6% in June. Core consumer spending rose 0.6% after rising 0.4% in June. The increase was slightly above expectations. Spending on goods increased 0.7%, mostly reflecting spending on non-durable goods such as pharmaceuticals, recreational items, groceries and clothing. There were also increases in spending on recreational goods and vehicles as well as household furnishings and equipment and other durable goods. Services spending increased 0.8%, driven by portfolio management and investment advice services, housing and utilities, restaurants and healthcare. Economists said the jump in consumer spending was driven mainly by one-time factors, such as the "Barbenheimer" phenomenon, that are unlikely to be repeated. Utility spending leapt as an unprecedented heat wave caused Americans to crank up air conditioning. Back-to-school shopping also likely fueled some spending.

Consumer Prices Rise 0.2% in July

The Consumer Price Index (CPI) rose 0.2% for the second consecutive month in July and was up 3.2% year over year after being up 3.0% in June. Shelter costs accounted for 90% of the increase. Inflation peaked at 9.1% in June 2022. Core inflation, which excludes the volatile food and energy categories, rose 0.2% in July, matching June's increase. Core inflation fell to 4.7% year over year after falling to 4.8% in June. Inflation is gradually slowing and getting closer to the Fed's preferred level of 2.0%. The personal consumption expenditures (PCE) price index increased 2.5% in the second quarter, down 0.1% from a previous estimate. Excluding food and energy prices, the PCE price index rose 3.7%, also down 0.1%.Expectations were for core PCE prices to rise 3.8%.The Fed closely tracks the PCE price indexes for monitoring their 2% inflation target.

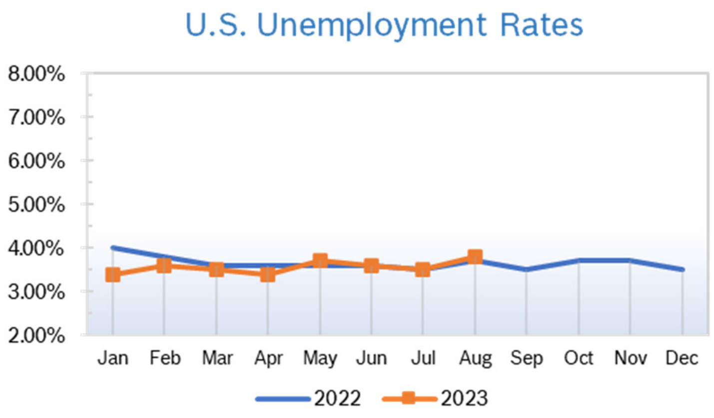
Consumer Confidence Falls to 106.1



- The New York-based Conference Board's Consumer Confidence Index fell to 106.1 in August after rising to a downwardly revised 114.2 in July.*
- The Present Situation Index fell to 144.8 in August after rising to 160.0 in July.
- The Expectations Index fell to 80.2 after rising to 88.3 in July. A level of 80 or below historically indicates consumers expect a recession.
- 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.

Unemployment Rises to 3.8%



- The unemployment rate rose to 3.8% in August after falling to 3.5% in July. Unemployment was 3.5% at the beginning of the pandemic in March 2020.
- The economy added 187,000 new jobs in August, about on par with July and above expectations. It was the 32nd consecutive month of job growth.
- The job market gradually cooling down bodes well for the economy and may take pressure off employers.
- The private sector added 33,000 fewer jobs in August, creating 177,000 new jobs.

Chicago PMI Rises to 48.7

The Chicago PMI rose to 48.7 in August after rising to 42.8 in July**.** It was the highest reading in a year and well above expectations. However, it was the 12th month in a row the PMI remained below 50, the level that indicates expansion. Looking back to when the series began in 1967, the PMI has ranged from 20.7 in June 1980 to 81.0 in November 1973.

Wholesale Prices Rise 0.8%

The Producer Price Index (PPI) rose 0.8% in July after rising an upwardly revised 0.2% in June and was up just 0.1% year over year for the second consecutive month. Stripping out volatile food and energy prices, core PPI rose 0.2% in July after increasing 0.1% for three consecutive months. The PPI peaked at a whopping 11.7% year-over-year increase in March 2022.

Q2 GDP Growth Revised Down to 2.1%

Q2 GDP grew a downwardly revised 2.1% rather than the 2.4% first reported, according to the second reading from the Commerce Department. Growth was still slightly above the 2.0% pace in Q1. Economists had expected GDP to be unchanged. The revision primarily reflects downward corrections in the components of private inventory investment and nonresidential fixed investment, which were partially offset by an increase in state and local government spending. In addition imports, which subtract from GDP, were upwardly revised. Spending on services rose three times more than spending on goods.

Fed Could Raise Rates if Needed

Fed Chairman Jerome Powell stressed that rates could move higher if that's what is needed to tame inflation during his much-anticipated remarks at the annual Jackson Hole Economic Symposium. This annual presentation has become a major event as it provides an in-depth look at how the Fed views both the current condition and probable direction of the economy. Powell reiterated that there has been much economic progress, but as long as wage growth continues inflation may remain above the Fed's target of 2%. The Fed also promised to proceed cautiously and vowed not to bring "unnecessary harm" to the consumer. Most economists believe that the Fed is simply holding the door open and will hold steady in September.

HOUSING & CONSTRUCTION

Builder Confidence Falls to 50

Builder Confidence fell six points to 50 in August after rising one point to 56 in July, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). The decrease came after seven consecutive monthly increases in confidence. Much of the decrease came from a big decline in buyer traffic, which fell to 34 from a year-long high of 40. Sales expectations for the next six months fell to 55 from 59 in July. The HMI index gauging current sales conditions fell five points to 57 in August. Regional scores were mixed. The August HMI survey also revealed that 55% of builders are using sales incentives, up from July but still down from 62% at the end of 2022. Any number over 50 indicates that more builders view the component as good than view it as poor.

Building Permits Rise 0.1%

Overall building permits inched up 0.1% in July to 1.44 million annual units after falling to a slightly downwardly revised number in June. Single-family permits rose 0.6% to 930,000 annual units after rising to 922,000 units in June and were up 1.3% from July 2022. Multifamily permits dropped 1.0% to an annualized pace of 512,000 units after rising to 518,000 units in June. Permits fell year to date in all regions.

Housing Starts Rise 3.9%

Housing starts rose 3.9% in July to a seasonally adjusted annual rate of 1.45 million units after falling to 1.43 million units in June. Single-family starts rose 6.7% to a seasonally adjusted annual rate of 983,000 homes after falling to 935,000 homes in June. The number of single-family units under construction is down 16.9% from July 2022 to 678,000 units. Starts fell year over year in all regions.

New Home Sales Rise 4.4%

New home sales rose 4.4% in July to a seasonally adjusted annual rate of 714,000 homes from a downwardly revised reading in June, according to the National Association of Home Builders (NAHB). Sales were up 31.5% from July 2022. New home sales are benefitting from a lack of inventory of existing homes as homeowners stay put rather than buy a more expensive new home that will come with a higher mortgage rate. New single-family home inventory rose 4.8% to 437,000, a 7.3 months' supply at the current pace; a 6 months' supply is considered balanced. New homes now account for about 31% of the total number of homes available or sale. The median price of a new home in July fell 9% year over year to $436,700. Pricing is down due to builder incentives as well as a shift towards building slightly smaller homes. Regional sales year to date 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 Fall 2.2%

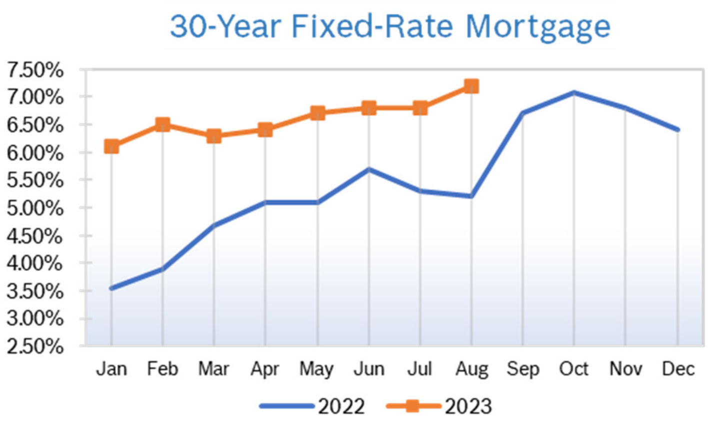
Existing home sales fell 2.2% in July to a seasonally adjusted annual rate of 4.07 million new homes after falling to 4.16 million new homes in June, according to the National Association of Realtors. Sales were down 16.6% from July 2022. The median existing-home sales price rose 1.9% to $406,700 in July from July 2022, the fourth time the median existing home price has exceeded $400,000. Inventory rose 3.7% to 1.11 million homes after holding at 1.08 million homes in June, a 3.3 months' supply at the current sales pace. The current supply of existing homes for sale is roughly half what it was in 2019 before the pandemic. Regional sales were mixed year to date.

Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence*	56 (+4)	58 (NC)	45 (NC)	50 (-1)
Building Permits*	-24.2%	-15.4%	-20.3%	-21.6%
Housing Starts**	-17.6%	-9.4%	-13.8%	-16.7%
New Home Sales*	5.0%	3.5%	1.0%	-8.1%
Existing Home Sales**	-23.8%	-14.3%	-20.0%	-12.5%

* change YTD **change YOY

Mortgage Rates Rise to 7.2%



- 30-year fixed-rate mortgages rose to 7.2% at the end of August after rising to 6.8% at the end of July. Mortgage rates were 6.3% at the end of August 2022.
- Chronic inventory shortages and a smaller pool of willing buyers and sellers are keeping home prices relatively stable and rates elevated.
- Recent volatility makes it difficult for Fannie Mae to forecast where rates are headed.

POWER TOOL INDUSTRY

Stanley, Black & Decker

Q2 revenues fell 5% to $4.2 billion. The quarterly loss was less than expected as cost-cutting measures helped offset the impact from falling DIY demand for power tools and the divestiture of their oil and gas business.

Q2 Conference Call with Analysts:

Chris Nelson started in June as Chief Operating Officer and President of the Tools & Outdoor business. SB&D's senior leadership team is now in place. Chris Nelson has spent at least a day with every business unit and has visited seven factories as well.

Tools & Outdoor total revenue was $3.5 billion, down 5% organically versus Q2 2022 as favorable price realization was more than offset by volume decline. North America was down mid-single digits organically due to lower consumer outdoor and DIY tool demand as well as modest customer destocking.

Power tools declined 4% organically as softer consumer market demand persisted and customers remained cautious with inventory levels. This was still an improvement over the first quarter, due to continued strength from Pros and a healthier supply chain that allowed for better service levels and increased promotional opportunities, particularly for DeWalt and Craftsman.

US retail POS for Tools & Outdoors grew compared to 2019 due to price and strong demand from Pros. POS also grew for the first four weeks of July, a positive sign for the second half of the year. Operationally, they will continue to focus on inventory reduction and cash generation.

Outdoor organic revenue declined 12% due to the challenging start to the outdoor season persisting for the entire season along with notable softness in POS and replenishment in the quarter, particularly surrounding higher-price-point retail products.

Contractor backlog remains healthy for repair and remodeling activity.

Channel partners continue to be focused on managing inventory. They expect that will prove to be a modest headwind for 2023. They continue to monitor demand and plan for a variety of possible scenarios.

The fully-integrated campaign they launched for Craftsman in Q2 has driven both online and offline traffic to their key retail partners and improved POS. The campaign was also designed to incentivize customers to make repeat purchases and get the attention of new users.

Their engineering team is continuing to work on developing best-in-class products and job site solutions that improve productivity and performance and enhance safety.

Their cost-reduction program is running modestly ahead of schedule and should deliver $1 billion in pre-tax savings this year. About half the savings were related to manufacturing costs.

They have now decommissioned more than 20,000 SKUs and have about 50,000 to go. Because they have substitutes for almost all products, they believe the revenue risk is less than $50 million annually.

In the second quarter they reduced inventory by $375 million, bringing their year-to-date progress to $575 million. Over the last 12 months, they've achieved approximately $1.4 billion in inventory reduction.

They lowered their guidance and are now planning for total company organic growth to be down mid-single digits for the year. They expect Tools & Outdoor total organic revenue to be down mid-single to high-single digits for the year.

They are reducing their expectations for outdoors and are expecting continued DIY softness. Because their supply chain position has been improved they think pricing will be flat to slightly negative.

They expect to resume cordless power tool promotions in the second half of the year. They intend to pursue continuing electrification in some categories that are rapidly changing.

They need to invest in more engineering resources in key areas in order to take advantage of opportunities and drive innovation. They also need to invest more in digital marketing, social media and engaging their end users.

Freight costs have gone down dramatically and metals and other commodities are starting to pull back. However, they don't see any need to adjust their pricing strategy because they want DeWalt to be priced at a premium versus competitors.

Consumers are continuing to shift their spending and investing less in home improvements and remodeling.

TTI/Techtronic Industries

First-half sales fell 2.2% to US $6.9 billion. Sales in North America fell 3.9%. Milwaukee sales grew a strong 8.7%.

First Half Conference Call with Analysts:

The consumer business was down 15% in the first half and they believe their global retail partners are still reducing inventory, but they believe they are coming to the end of that cycle.

They have stepped back and become more conservative. They are currently focused on inventory reduction and cash flow management.

They will continue driving down inventory in the second half. And after aggressively spending over the past three years, they will cut back on capital investments.

They scaled back new product development on the consumer side of the business and will only invest in the highest priorities until they see demand begin to pick up again. However, they still have products in the pipeline.

Last year they were up 10% in the first half so comps are tough. In 2021 they grew 52%. So in reality they have basically held on to the massive growth in market share they achieved over the past five years.

Their Milwaukee business grew 9% globally and 7% in the US. It has good margins and is still growing. They project Milwaukee will grow in the high single- or low double-digits through 2026. There is a lot of potential to grow the Milwaukee business outside of the US. Milwaukee has a total of 425 cordless products.

They just launched Forge, a next-generation battery platform they say is the most powerful, longest-lasting, easiest and fastest to charge battery system available today. The new cell technology they are using cuts down on friction and heat.

They are aggressively reducing headcount and expenses for the Ryobi DIY business, part of the consumer group, in order to set themselves up for the future. Ryobi continues to be the global market leader in cordless DIY tools.

They believe they will deliver mid-single-digit growth for the company in the second half after an excellent July, when they saw strong demand and stronger POS.

The rollout of the lithium sub-compact system for Ryobi last year that uses a USB charging system has allowed them to produce a whole range of superior sub-compact cordless products, which has given them access to new users with smaller homes or condos who are intermittent DIYers. This also allows them to address the market for in-home assembly of things such as bicycles, fitness equipment and baby items that all need assembly. They have many new USB products in the pipeline.

Ryobi One+ has more than 300 products now and they intend to be the leader in 40V systems. This system guarantees brand loyalty and means that people are already pre-disposed to buying a product that works with the system they have.

RETAIL

Retail Sales Rise 0.7%

Retail sales rose a strong 0.7% in July after rising an upwardly revised 0.3% in June, according to the Commerce Department. It was the fourth consecutive monthly increase and above expectations of a 0.4% rise. Analysts noted that the increase was partially accounted for by the big 1.9% boost in online sales from Amazon Prime Days. Excluding automobiles, gasoline, building materials and food services, retail sales rose a robust 1.0% after rising 0.6% in June. 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

Q2 sales fell 2.0% to $42.92 billion and comp sales fell 2%. Both declines were less than expected.

THD backed their full-year guidance for an overall sales decline of 2%, a 5% decline in comp sales and a decline in EPS of 7% to 13%. THD also announced a $15 billion share buyback program.

Conference Call with Analysts:

THD reported that consumer spending patterns are shifting. While there was continued strength in small project sales there was a measurable decline in big-ticket project-oriented sales, with big ticket comp transactions falling 5.5%.

Sales leveraging their digital platforms increased approximately 1.0%. Nearly half of online orders were fulfilled through their stores.

Pro sales for the quarter fell slightly, although there was continued strength in Pro-related categories such as building materials, hardware and plumbing.

The average ticket rose 0.1% to $90.07. Sales per retail square foot fell 2.3% to $684.65. Customer transactions fell 1.8% to 459.1 million in the period.

Surveys suggest that Pro backlogs have fallen from the same time last year but are still healthy and elevated relative to historic norms. However, projects in backlog are generally smaller in scale and scope.

The weather improved in most parts of the country during the second quarter and they saw an uptick in spring sales and small projects, particularly in the West. There was continued softness in big ticket, discretionary purchases.

Lumber prices declined significantly during the quarter. On average, framing lumber was approximately $420 per thousand board feet compared to approximately $715 in the second quarter of 2022, representing a decrease of over 40%.

They are focusing on products that simplify the project and save customers time and money. To that end they are adding a new line of Milwaukee hand tools for Pro customers.

They are very excited about their lineup for Halloween as these products drive traffic and bring people into the stores. Their preview sales were excellent, and Halloween is a 100% discretionary purchase.

They believe the approximately $1 billion of the annualized compensation investment they're making is paying off and they are seeing lower attrition rates, particularly among their most tenured associates. More consistent staffing levels are resulting in improved customer service, productivity and safety.

Unassisted cash-and-carry purchases account for a significant majority of in-store sales. That means it's critical they have the right products in-stock in the right quantity and on the shelf available for purchase. They are very focused on improving their on-shelf availability, or OSA, positions.

They are working to narrow the gap between what is considered in-stock, so systems indicate it is on the shelf and available for sale for the customer, not just in the store. They are using new technology such as computer vision that can provide associates with specific locations of depalletized product stored overhead.

Smart phones and their innovative Sidekick application helps associates easily identify and prioritize the highest-value tasks. Sidekick has done extremely well in testing and they plan to roll it out later this year, which will help drive productivity.

Their Order Up system is much more intuitive and provides a seamless experience that even a first-day associate can master to fulfill a wide variety of needs for the customer. It has speeded up the average customer experience by more than 40%, which has increased customer satisfaction scores.

During the second quarter they opened two new stores, bringing their total store count to 2,326. Retail selling square footage was approximately 241 million square feet. At the end of the quarter, merchandise inventories were $23.3 billion, down $2.8 billion compared to the second quarter of 2022. Inventory turns were 4.4x, down from 4.5x last year.

They remain very bullish on the sector overall and could not be more positive about the macro environment for housing and home improvement.

They believe there is too much uncertainty to revise their guidance even though their in-stock rates have continued to improve and the customer has proved to be very resilient.

They are continuing to work on the complex systems that are needed to attract larger Pros and capture a larger share of the Pro wallet. This is a big undertaking and will take some time but they feel that it will also give them an advantage that will be very difficult to duplicate.

Net new requests for cost increases from the supply chain have pretty much abated and inflation has really gone down. However, they are not expecting a deflationary environment.

The projected decline in housing value has not materialized; after a brief pull-back, housing prices have remained high because there is a chronic shortage of inventory and continued high demand. There is some indication people have come to grips with higher interest rates and are moving ahead when they find a home they want.

Other News:

The Home Depot Foundation and Home Builders Institute (HBI) have partnered to provide free skilled trades training and certification to separating service members on or near 10 military bases through the Path to Pro program that began in 2018. The Foundation recently granted $1.6 million to Habitat for Humanity affiliates near those bases to enable Path to Pro students to gain on-the-job training by building Habitat homes alongside Habitat staff, volunteers and future homeowners.

Fort Hood Area Habitat for Humanity is one of the first affiliates to pilot this program and host HBI students on its build sites. They also hired Path to Pro graduates and more recently joined with The Home Depot Foundation and HBI to construct a home for a local single mother. This effort is part of a new partnership that brings all three nonprofit organizations together to improve access to affordable housing. It will also provide free skilled trades training to transitioning military members stationed at Fort Cavazos.

Lowe’s

Q2 sales fell to $24.95 billion from $27.47 billion in 2022. Q2 comp sales fell 1.6%, slightly less than expected. Online comp sales grew 6.9%, with about half of online orders picked up in stores.

Conference Call with Analysts:

They saw growth in building materials, paint, seasonal, lawn and garden, hardware and outdoor living which helped partially offset significant deflation in lumber and continued pressure on big ticket discretionary purchases.

Comp average ticket was up 0.3% compared to Q2 2022. Ticket increases in the majority of merchandise categories were offset by lumber deflation and more normalized appliance promotions.

There was good momentum in outdoor power equipment. They also saw an increase in small, instant gratification projects such as landscaping projects and pre-potted plants.

They are in a better inventory position than last year for the second half.

They started the rollout of Klein Tools, the number one tool brand for electricians and HVAC professionals. They are excited about the launch of this brand, which is returning to Lowe's after nearly 15 years. As part of this launch, they will offer the largest assortment of Klein Tools anywhere in the home improvement retail channel between hand tools, storage, safety and electrical products in store and online. Their goal is to position themselves as the go-to retailer for these brand loyal customers.

Their customers respond very well to their private-label brands, which are tested to make sure they deliver comparable performance. However, they make sure their increasing private brand penetration is balanced with a strong lineup of trusted national brands like Bosch, DeWalt, Rubbermaid and Scott's.

They introduced a new digital *Will This Fit?* capability that helps customers determine if a refrigerator will fit into their space, and a refined search experience with better recommendations, filters, and featured categories.

Their Halloween and holiday sets are already available online to attract customers who want to get a jumpstart on decorating.

They believe their investment in their associates is paying off and have seen a 200 basis point improvement in both DIY and Pro customer service scores compared to last year.

The small to midsize Pro remains resilient and continues to respond to their expanded national brands, MVPs Pro rewards program and enhanced online tools.

Nearly 75% of Pros reported healthy project backlogs and lead volumes remained consistent with recent quarters, according to their most recent survey.

New Executive Vice President, Quonta Vance, will continue to expand their online business tools for Pros that allow them to easily generate quotes and track orders as part of the MVP Pro rewards program.

In August they launched online purchase authorization for Pros that allows the crew member dispatched to the store to pick up an order to simply scan a QR code rather than having the Pro desk call for authorization. This enhancement addresses a big pain point for Pros.

They launched a new same day delivery option on lowes.com and their mobile app powered by OneRail that lets Lowe's tap into OneRail's network of 12 million drivers to deliver directly to Pro job sites and consumer homes in a matter of hours.

This new delivery option allows them to leverage their 1700 plus store footprint to make those much needed last minute deliveries to Pro job sites saving Pros both time and money.

They are also making progress in the rollout of a market delivery model for big and bulky products, with 13 geographic regions now supporting more than 1200 stores and are on track to complete the initial rollout by the end of the year.

They are in the final phases of sunsetting their 30-year old operating system and are also seeing big gains from using intuitive touch screens instead of hard to navigate green screens.

They are speeding up the supply chain with new mobile applications combined with automation and robotics to improve productivity, maximize speed, and minimize damages. They are also piloting a new brake pack process, which leverages automation to break down cases five times faster, making it far more efficient to replenish stores.

Improved technology is giving them better visibility into how freight is flowing into their stores, which lets them better match staffing with the types of freight inbound and get products onto the shelves faster.

The two strongest demand drivers of their business are real disposable personal income and home price appreciation; when both are favorable they support demand. Home price appreciation has slowed but is still up 35% versus pre-pandemic, while real disposable income has been pressured by persistent inflation and elevated interest rates.

Home improvement shoppers remain cautious, especially when it comes to big ticket discretionary purchases, and are more focused on smaller repair and maintenance projects. There have also been improvements in real disposable income and consumer sentiment, but that will need to be sustained before it will translate into consistent consumer spending.

Home improvement projects are typically postponed rather than cancelled. Since home improvements' spend as a percentage of home equity is below the historical average, demand should pick up as consumer sentiment improves.

They are bullish on the mid-to-long-term outlook for the industry, based on the fact that aging housing stock results in remodel and repairs combined with other favorable trends like millennial household formation, aging in place, and persistent remote work.

They confirmed their sales guidance for the year and continue to expect 2023 sales in a range of $87 million to $89 billion, representing a comp sales decline of 2% to 4%. This includes a 150 basis point impact from lumber deflation for the full year.

They plan to outperform the market by 100 to 200 basis points by consistently focusing on their Total Home strategy. This outlook reflects continued strength in Pro and online, offset by ongoing pressure from DIY discretionary purchases. Q3 has the toughest comps of the year so they expect Q3 comp sales to come in at the lower end of guidance.

Other News:

Lowe's is developing RFID technology they can embed in power tools in order to prevent theft. The power tool will not operate until it is activated at the register. Retail theft is an industry-wide problem that resulted in $94.5 billion in losses in 2021, according to the National Retail Federation's National Retail Security Survey.

Walmart

Q2 revenue rose 8.4% to $152.9 billion and US net sales rose 7.1% to $105.1 billion. US comp sales were up 11.7% on a two-year stack, driven by strong private brand sales and higher average ticket. Ecommerce sales grew 12%. They confirmed their guidance for the second half and expect net sales to grow 4.5%.

Walmart topped Fortune's Global 500 list for the tenth consecutive year, with sales of $611.3 billion in 2022. Amazon was ranked number four on the list, the only other retailer in the top ten. Rankings are based on annual revenue. Collectively, the Fortune Global 500 companies generated revenues totaling $41 trillion last year, or more than one-third of the world's GDP. That's an increase in collective revenue of 8% over last year, but cumulative profits were down 7% from a year ago, at $2.9 trillion. Companies on the 2023 list employ 70.1 million people worldwide and are based in 232 cities and 33 countries and regions around the world, according to Fortune.

Ace Hardware

Q2 revenue rose 3.9% to $2.6 billion. A 45% increase in visits to Acehardware.com drove an 18% increase in digital business, a 3% increase in store visits, and a 1.1% increase in comp store sales.

The approximately 3,600 Ace retailers who share daily retail sales data reported a 0.4% increase in US retail comp sales during Q2, due to a 1.1% increase in comp transactions, partially offset by a 0.8% decrease in average ticket.

Increases were seen across a majority of departments with lawn and garden, paint, and grilling showing the largest gains.

Ace added 36 new domestic stores in the second quarter of 2023 and cancelled 13 stores. The Company's total domestic store count was 4,924 at the end of the second quarter of 2023 which was an increase of 108 stores from the second quarter of 2022.

Amazon

Q2 sales rose 11% to $134.4 billion. CEO Andy Jassey credited the big improvement to the success of Amazon's regionalization efforts as Amazon shifted from a single national US fulfillment and transportation network to eight focused regions. According to Jassy, since the regionalization shift began, Amazon touches delivered packages 20% less and travels 19% fewer miles to make a delivery. It now fulfills 76% of orders from the region around the customer. Quarterly shipping costs rose 6% to $20.4 billion. Paid units shipped rose by 9%, an improvement over the 8% growth in the prior two quarters.

CFO Brian Olsavsky said Amazon still has room to cut costs as they continue to optimize their fulfillment network, which nearly doubled through the Covid-19 pandemic. For the third quarter, Amazon expects net sales between $138 billion and $143 billion, a 9% to 13% increase from 2022.

Merchants in early trials who use Buy with Prime saw their shopper conversion increased by 25% on average. Merchants who participate in Prime Day activities experienced a 10X increase in daily Buy with Prime orders during the sales event period versus the month before we announced Prime Day, according to Jassy.

AWS segment sales stabilized after several quarters of slowing growth and increased 12% year-over-year to $22.1 billion. Third-party seller service sales rose 18% to $32.3 billion, while advertising service sales grew 22% to $10.7 billion. Subscription services, including Prime membership revenue, rose 14% to $9.9 billion.

AI has become a significant focus for Amazon, with virtually every team working on ways to incorporate and benefit from AI.

Amazon Prime Days saw big jumps in some categories and declines in others, according to Numerator's "Prime Day 2023 Recap" report. Prime Days outpaced past years in household penetration (36%), orders per household (3.1), spend per household ($180.82), and order size (1.9 units). However, compared to Prime Day 2022, Prime Day 2023 saw lower order size ($58.41 vs. $60.73) and lower spend per unit ($31.27 vs. $32.71).

Amazon will host a second Prime-Days style event in October tentatively called Prime Big Deals Days. Last October Amazon offered a Prime Early Access Sale. Amazon has a penchant for hosting events Tuesday and Wednesday and Amazon watchers are betting on October 10 & 11.

CANADA SNAPSHOT

Unemployment Remains at 5.5%

- The unemployment rate remained at 5.5% in August after rising to 5.5% in July.
- Unemployment reached a record low of 4.9% in June and July 2022. In January 2021 unemployment peaked at 9.4%.
- Employment in construction rose 2.2% (34,000 jobs) after falling by 45,000 jobs in July.
- On a year-over-year basis, average hourly wages rose 4.9% to $33.47 in August after rising 5.0% in July. Wage growth needs to cool down in order to tamp down inflation.
- Employment rose in Alberta, Prince Edward Island and British Columbia and fell in Nova Scotia. Employment was little changed in other provinces.

Consumer Prices

Consumer prices were up 3.3% year over year in July after being up 2.8% year over year in Ju**ne;** prices were up 0.6% for the month from June. The increase was below estimates, and the smallest increase since March 2021. The slowdown was largely driven by lower year-over-year prices for gasoline and cell phone services. While the cost of groceries and mortgages continues to rise, it was the first time since 2021 interest rates have been within the Bank of Canada's acceptable range of below 3.0%. Inflation has exceeded the bank's target rate for the past two years. Central bank economists expect inflation to fall rapidly in the coming months, but it may take longer for interest rates to come down.

Housing and Construction News

July housing starts fell 10% to 254,966 starts from June, the year's strongest month so far, but year-over-year starts were 7.4% above July 2022. The annual pace of housing starts in urban areas fell 11% to 234,857, according to data from Canadian Mortgage and Housing Corp. (CMHC). Within this category, the rate of multi-unit starts had a sharper drop of 12% to 193,446, while the pace of single-detached starts had a more modest decrease of 4% to 41,411. Nova Scotia, Saskatchewan, B.C. and Ontario all posted double-digit declines in construction activity, while P.E.I., Alberta and Manitoba had the strongest gains.

Canadian home sales fell 0.7% in July after rising 1.5% in June but were up a strong 8.7% from July 2022, the largest year-over-year increase in two years, according to the Canadian Real Estate Association (CREA). The national average home price rose 6.3% to $668,754. Analysts described the market as stabilizing.

The CREA still expects about 464,000 properties to be re-sold via the Canadian MLS systems in 2023, down from April's forecast of 492,674 properties. The new tally is 6.8% below 2022 levels. The downgrade from the previous two forecasts is broadly based as CREA expects the sales rebound to be cut short by the rising cost of borrowing. The forecast sales would be in line with the 10-year average, but below 2007, 2016, 2020 and 2021.

GDP Unchanged in Q2

GDP remained largely unchanged in Q2 after rising 0.6% in the first quarter. The slowdown was due to continued declines in housing investment, smaller inventory accumulation, slowing international exports and falling household spending. Increased business investment in engineering structures and higher government spending were among the few components that contributed to growth.

Housing investment fell 2.1% in the second quarter, the fifth consecutive quarterly decrease. The decline was led by a sharp drop in new construction (-8.2%) in all provinces and territories other than Nova Scotia. Renovation activities (-4.3%) also fell. Falling housing investment coincided with higher borrowing costs and lower demand for mortgage funds, as the Bank of Canada continued their monetary tightening, raising the policy interest rate to 4.75% in the second quarter.

Growth in real household spending slowed to 0.1% in the second quarter from 1.2% in the first quarter. Household spending on services was unchanged in the second quarter, following a 1.1% rise in the first quarter.

Compensation of employees rose 2.2% in the second quarter, following a 1.9% increase in the previous quarter. Increases in compensation of employees was mainly due to higher average wages.

Retail Sales

Retail sales rose 0.1% in June to $65.9 billion after rising to $66.0 billion in May. Sales increased in three of nine subsectors and were led by a 2.5% increase at motor vehicle and parts dealers. Core retail sales, which exclude gasoline stations and fuel vendors and motor vehicle and parts dealers, fell 0.9% in June after falling in May. In volume terms, retail sales edged down 0.2% in June.

Retail sales were unchanged in the second quarter but dropped 0.8% in volume terms. Sales increased in five of nine subsectors.

Retail Ecommerce Sales

Retail ecommerce sales were up 1.1% to $3.7 billion in June, accounting for 5.7% of total retail trade, compared with 5.6% in May.

Retail Notes

Canadian Tire reported Q2 sales fell 3% to $4.26 billion and comp sales were flat. CEO Greg Greg Hicks said inflation and rate hikes impacted consumer demand for sporting goods, home improvement supplies and other non-essential items, especially in the second half of the quarter. A fire at a major Toronto distribution centre in March cost $74.6 million and impacted revenue and profits. CT also withdrew their 3-year forecast, saying inflation has dampened consumer spending and put pressure on retail sales, creating what CEO Greg Hicks termed a “turning point for the Canadian economy.”

MARKET TRENDS

Residential Construction Industry Marches on Washington

More than 700 builders, remodelers and associates engaged in all facets of residential construction marched on Capitol Hill to call on Congress to take steps to ease the nation’s housing affordability crisis and make housing and homeownership a national priority. Members came to be part of NAHB’s 2023 Legislative Conference to reinforce how vital a healthy housing industry is to the economy.

With a nationwide shortage of 1.5 million housing units, NAHB maintains that building more homes is the only practical way to tame inflation, satisfy unmet demand, achieve a healthy supply-demand balance in the for-sale and rental markets, and ease the nation’s housing affordability crisis.

Housing advocates had more than 250 individual meetings with their representatives and senators, urging lawmakers to act on three important issues:

NAHB is asking Congress to address the nationwide shortage of distribution transformers. The shortage is delaying housing projects across the nation and the cost of transformers has soared by more than 70% over the past three years. NAHB is urging Congress to use whatever means necessary to boost output at existing facilities and oppose efforts by the DOE to increase energy conservation standards for the production and distribution of transformers.

NAHB is also urging the Senate to repeal $1 billion in grants to state and local governments to adopt more restricting and stringent energy codes.

The shortage of more than 400,000 workers in the construction industry is creating many issues, including housing construction delays and higher home building costs. NAHB is urging Congress to reauthorize the Workplace Innovation and Opportunity Act to help meet the residential construction industry's severe workforce needs and to fully fund the Job Corps program, which is a vital source of skilled labor for the industry.

Companies Buying Less from China

US companies are stepping up their efforts to reduce their dependence on Chinese suppliers even as officials in Beijing and Washington work to stabilize relations. Through the first five months of this year, US imports from China were down 24% from the same period in 2022, according to the Census Bureau.

Companies such as Stanley Black & Decker, HP and Lego were cited as some of the companies that have been repositioning their supply lines for American consumers, either to avoid the risk of being pinched between rival superpowers or as part of a longer-term strategy to produce goods closer to customers.

Big retailers such as Walmart and Target are also ordering fewer goods from China as they work to pare down the excess inventories accumulated during the pandemic.

Wages for Chinese factory workers have risen, eroding one of the country's competitive advantages. US tariffs on roughly two-thirds of Chinese goods that were imposed during the previous administration have cut into new orders. Chinese President Xi Jinping's state-centric economic strategy, related crackdowns on private companies and chilly relations with Washington have further dampened commercial ties, according to analysts.

Chinese products account for roughly 1 out of every 6 dollars Americans spend on imports, down from nearly 1 in 4 before the pandemic, according to Oxford data. Japan also is buying less from China. But some European countries are standing pat.

Foreign investors are building fewer new Chinese factories, suggesting that other Asian countries will keep increasing their share of US imports at China's expense. Annual spending on new or "greenfield" sites in China fell from about $100 billion in 2010 to $50 billion in 2019 and hit just $18 billion last year, according to Oxford data.

Some Chinese companies have moved out of China to dodge US tariffs, while others send their products to third countries for a modest amount of final processing that obscures their Chinese origins. As a result, some products once made by Chinese companies at factories in China now arrive in the United States from Chinese factories in Mexico or Vietnam.

Earlier this year, Mexico became the United States' top trading partner, as manufacturers increasingly favored regional supply networks rather than global ones. Mexico, Canada and China have taken turns occupying the No. 1 spot since the start of the 2018 trade war.

Vietnam and Thailand have emerged as leading alternatives for companies looking to diversify out of China while staying in the neighborhood. India is attracting attention from manufacturers such as Apple, which plans to beef up its production of iPhones there.

China remains the world's factory, accounting for 31 percent of global manufacturing value added, compared with 17 percent for the second-ranked United States.

GDP Forecast Strong

GDP will grow a robust 5.8% in Q3, according to the Atlanta Federal Reserve's most recent GDPNow forecast. The previous forecast of 5% growth was upwardly revised after increases in new home construction and industrial production were reported in July. GDP expanded at 2.4% in the second quarter and 2% in Q 1. Analysts continue to believe the maximum sustainable growth is about 1.8%. Even though interest rates have been going up, economists say that higher borrowing costs alone rarely hamstring an economy.

The job market remains robust; most Americans who want a job can find one and companies are still hiring. The unemployment rate remains near a 55-year low and wages are rising faster than inflation for the first time in several years.

The main engine of the economy, consumer spending, remains strong. The government is also still spending lots of money on defense as well as subsidies for green energy and high tech. Spending may slow toward the end of the summer and the manufacturing side of the economy may slump.

Historically, the Atlanta Fed errs on the side of optimism. Another closely followed estimate by S&P Global puts GDP on a 2.4% rate of growth. The S&P forecast is one of the gold standards on Wall Street DJIA. Some economists are still sticking to previous forecasts showing the start of a recession by early next year, which traditionally would mean two consecutive quarters of negative GDP growth.

Sunbelt is Booming

Two-thirds of all job growth in the country is now concentrated in the Southeast, home to 10 of the 15 fastest-growing cities, six of which are in Texas. Both Tennessee and Florida increased their GDP by 3.5% in the last financial quarter, according to the Bureau of Economic Analysis, and the state economies of Texas and Georgia also outperformed the US economy. The change in economic activity reflects the migration of workers to the sunbelt in search of better weather and more space after the cramped conditions of cities like New York during lockdowns. Southern states also lifted lockdown measures faster, luring away people living in the northeast who were tired of CV19 restrictions. Around 2.2 million people migrated to Florida and the Southeast in the past two years.

INFORM Consumers Act Takes Effect

The INFORM Consumers Act, which took effect in July, aims to limit illegal sales and counterfeit products on the internet. INFORM requires companies to verify and disclose information about their high-volume third-party sellers, defined as anyone who sold 200 items or more totaling at least $5,000 in the past 12 months. These third-party sellers must submit verifiable information, such as a government-issued ID, bank account number, working email and phone number and taxpayer identification number. Sellers with sales of more than $20,000 a year will also have their full name and physical address listed on their product-listing page, along with contact information. Because the legislation does not make the hosting company, such as Amazon or Walmart, liable for third-party sellers, it is supported by all the big players.