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Credit Card Delinquencies Rise
Consumer Spendings Silver Lining

Bosch | Dremel
RotoZip | Vermont American
CST/berger | freud | Sia

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US ECONOMY

Exchange Rates May 31, 2024

Euro	1 Euro = $1.085	$1.00 = 0.922 Euros
Canadian Dollar	1 CAD = $0.733	$1.00 = 1.365 CAD
Japanese Yen	1 Yen = $0.007	$1.00 = 157.186 Yen
Chinese Yuan	1 Yuan = $0.138	$1.00 = 7.241 Yuan
Mexican Peso	1 Peso = $0.058	$1.00 = 16.999 Pesos

Market Watch May 31, 2024

DOW	38,686	2.3%
NASDAQ	16,735	6.8%
S&P 500	5,278	4.8%

Stocks got back into the black in May, with markets settling down as some signs of inflation cooled. The DOW briefly crossed the historic high of 40,000, but settled back down before the end of the month.

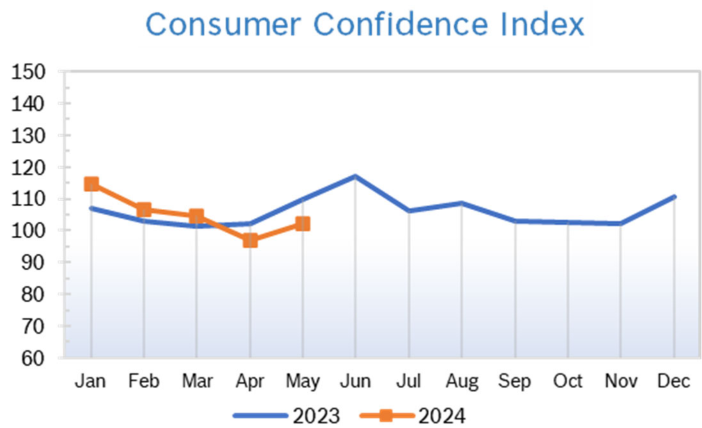
Consumer Spending Rises 0.2%

Consumer spending inched up 0.2% in April after rising 0.8% for the previous two months. Adjusted for inflation, real consumer spending rose 0.5% in March and spending for February was revised from a gain of 0.4% to 0.5%. Disposable household income after accounting for inflation and taxes rebounded 0.2% after slipping 0.1% in February. Consumers saved less and also tapped into savings. The saving rate fell to a 16-month low of 3.2% from 3.6% in February. But economists say they are not concerned, as the low savings rate reflects healthy household balance sheets and reasonable confidence in the future.

Consumer Prices Rise 0.3%

The Consumer Price Index (CPI) rose 0.3% in April after rising 0.4% in February and March and year-over-year inflation slowed to 3.4% in April from 3.5% in March. The slowdown was in line with expectations. Core prices rose 0.3% in April after rising 0.4% for the past three consecutive months and were up 3.6% year over year after rising 3.8% year over year in March. Results were in-line with expectations and cheered markets. The core CPI inflation rate peaked at a 40-year-high of 6.6% in September 2022. The personal consumption expenditures (PCE) price index, the Fed's preferred measure of inflation, rose 0.3% in April for the third consecutive month and was up 2.7% year over year, a slight cooldown from 2.8% in March.

Consumer Confidence Rises to 102.0



- The New York-based Conference Board's Consumer Confidence Index rose to 102.0 in May after falling to an upwardly revised 97.5 in April* The increase came after three consecutive monthly declines during which the index hit the lowest level since July 2022.
- The Present Situation Index increased to 143.1 after falling to a downwardly revised 140.6 in April.
- The Expectations Index rose to 74.6 in May after falling to an upwardly revised 68.8 in April. A level of 80 or below historically indicates consumers expect a recession.
- Confidence improved among all age groups but increased the most in those making more than $100,000 per year.
- 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.

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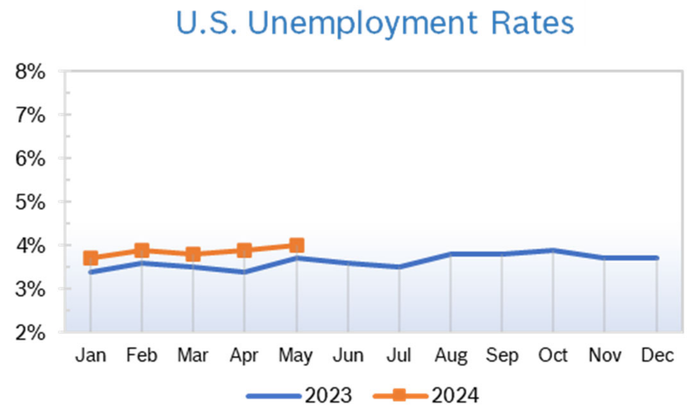
Unemployment Rises to 4.0%



- The unemployment rate rose to 4.0% at the end of May, the first time it has reached 4.0% since January 2022. Unemployment fell to 3.9% at the end of April. Unemployment was 3.5% at the beginning of the pandemic in March 2020.
- The economy added a 272,000 new jobs, much more than expected, after adding a downwardly revised 165,000 jobs in April. It was the 41st consecutive month of job growth.
- Job gains were concentrated in health care, government and leisure and hospitality; those three sectors accounted for more than half of the job gains. Retail added 13,000 jobs.
- Average hourly wages rose 0.4% in May, twice the increase in April , and were up 4.1% from May 2023.
- Unemployment had been below 4% for 27 consecutive months in April.

Chicago PMI Falls to 35.4

The Chicago PMI fell to 35.4 in May after falling to 37.9 in April and a seven-month low of 41.1 in March. Economists had expected the PMI to climb to 41.6. The Index has been below the break-even midpoint of 50 for the past 20 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 0.5%

The Producer Price Index (PPI) rose 0.5% in April after rising 0.2% in March and was up 2.2% year over year, well above expectations. Stripping out volatile food and energy prices, core PPI rose 0.5% in April after rising 0.2% in March and was up 2.4% year over year. Both increases were well above expectations. PPI peaked at an 11.7% year-over-year increase in March 2022.

Q1 GDP Revised Down to 1.3%

First quarter 2024 GDP was revised down to 1.3% growth from the 1.6% first reported. The major culprit was a big downward revision in consumer spending on goods, which was originally reported to have contracted 0.4% on an annualized basis. Goods spending is now estimated to have contracted at an 1.9% annualized rate including a 4.1% contraction in durable goods outlays and a 0.6% annualized drop in non-durable goods spending. The much larger services category was barely changed and grew at a 3.9% annualized rate in Q1, down marginally from 4.0% previously. The continued resilience in services outlays complicates the Federal Reserve's efforts to bring down the inflation rate in the service sector.

Fed Holds Rates Steady

The Fed held interest rates between 5.25% and 5.5% for the sixth consecutive meeting at their latest policy meeting May 1. Citing a lack of "further progress" in returning inflation to 2%, the FOMC voted unanimously to keep rates on hold for now. Analysts believe the Fed will need greater confidence that inflation is returning to 2% on a sustained basis before they feel comfortable lowering rates and consensus is that will not happen until their meeting in mid-September at the earliest.

HOUSING & CONSTRUCTION

Builder Confidence Falls to 45

Builder Confidence fell six points to 45 in May after holding steady at 51 in April, according to the National Association of Home Builders/Wells Fargo Housing Market Index (HMI). Despite eight consecutive monthly declines, it was the first time the HIMI has been below 50 since May 2020. All three HMI component indices dropped in May, with current sales conditions falling six points to 51, sales expectations in the next six months dropping nine points to 51 and traffic of prospective buyers slipping four points to 30. Regional three-month moving averages were mixed. Any number over 50 indicates that more builders have a positive outlook than a negative one.

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Building Permits Fall 3.0%

Overall building permits fell 3.0% in April to 1.44 million units after rising to 1.46 million units in March. Single-family permits fell 0.8% in April to 976,000 units, the lowest pace since August 2023. Multifamily permits fell 1.2% to 485,000 annual units after rising to 487,000 annual units in March. Permit issuance was down in all regions.

Housing Starts Fall 5.7%

Housing starts fell 5.7% in April to a seasonally adjusted annual rate of 1.36 million units in April after plunging to 1.32 million units in March. Single-family starts fell 0.4% in April after falling 12.4% to a seasonally adjusted annual rate of 1.022 million units in March. Single-family starts were up 17.7% from April 2023. Multifamily starts, which include apartment buildings and condos, fell to 329,000 annualized units but were up 30.6% year over year. Multifamily starts are typically very volatile. Regional housing starts were mixed.

New Home Sales Fall 4.7%

New home sales fell 4.7% in April to a seasonally adjusted annual rate of 634,000 new homes, according to the National Association of Home Builders. Sales were down 7.7% from April 2023. New single-family home inventory remained high at 480,000 homes, a 9.1 months' supply at the current building pace; a 6 months' supply is considered normal. Completed, ready to occupy inventory (97,000 homes in April) is up 42.6% from a year ago, but remains just 20% of total inventory. April's median new home sale price was $433,500, down 1.4% from March, and up 3.9% from April 2023. New home sales were up year over year in all regions. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the housing market than purchases of previously-owned homes, which are calculated when a contract closes.

Existing Home Sales Fall 1.9%

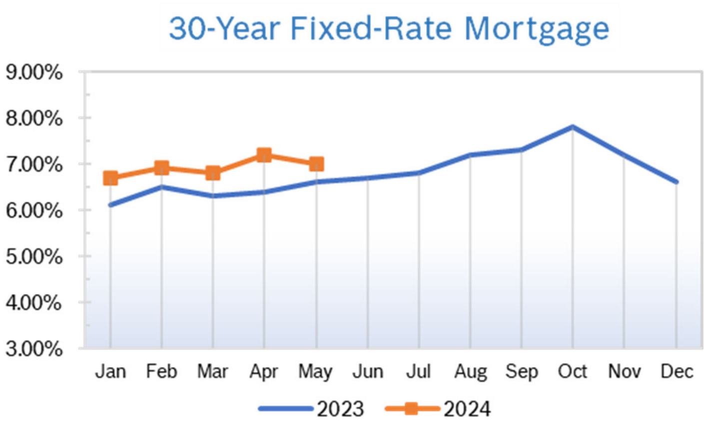
Existing home sales slipped 1.9% in April to a seasonally adjusted annual rate of 4.14 million homes after falling to 4.19 million units in March, according to the National Association of Realtors. Sales were down 1.9% from April 2023. The median existing-home sales price grew 5.7% from April 2023 to $407,600, the tenth consecutive month of gains. The inventory of unsold homes climbed 9% from one month ago to 1.21 million at the end of April, or the equivalent of 3.5 months' supply at the current monthly sales pace, up from 3.2 months in March and 3.0 Months in April 2023. A chronic shortage of existing inventory continues to spur new home construction and sales despite high prices. Regional existing home sales were mixed.

Regional Housing Data

	Northeast	South	Midwest	West
Builder Confidence*	61 (-2)	49 (-2)	49 (+3)	43 (-4)
Building Permits**	-0.5%	-3.4%	-1.4%	-3.2%
Housing Starts**	-23.8%	2.1%	3.5%	3.4%
New Home Sales**	16.8%	3.1%	18.5%	21.1%
Existing Home Sales**	- 4.0%	-3.1%	-1.0%	1.3%

* change YTD **change YOY

Mortgage Rates Fall to 7.0%



- 30-year fixed-rate mortgages fell back to 7.0% at the end of May after rising to 7.2% at the end of April. Mortgage rates were 6.4% at the end of April 2023.
- Rates had dropped during the month, but inched back up after mixed economic signals caused people to dial back expectations for a rate cut from the Fed.
- Uneasy potential homebuyers are still sitting on the sidelines waiting for the Fed to cut rates even though home prices continue to rise and inventory remains in short supply.

POWER TOOL INDUSTRY

Stanley Black & Decker

Q1 revenue fell 2% to $3.9 billion. Growth in DeWalt and Engineered Fastening was more than offset by lackluster consumer and DIY demand.

Q1 Conference Call with Analysts:

Q1 revenue for Tools & Outdoor fell 1% organically to $3.3 billion. Tools & Outdoor organic revenue is expected to be plus or minus low single digits in 2024, most likely below flat, consistent with the total company.

North American Tools & Outdoor sales were down 2% organically. Pricing in Tools & Outdoor was relatively flat, consistent with their expectations. Adjusted segment margin was 8.5%

Power Tools was up 1.0% organically led by pro-driven growth into DEWALT and international sales. Power Tools also benefitted from a return to historic promotional levels on high-margin DeWalt cordless products.

DeWalt is a high-margin product and well-established brand in demand from Pros. They want to make sure they continue to develop innovative products for this segment.

They also make significant investments in activation resources that can work with end users and partners in the field to make sure that they understand these products and can launch them successfully.

Organic revenue for hand tools declined 7% due to lower DIY demand.

The independent dealer channel continues to work through significant on-hand inventory, which pressured shipments in the quarter. They are monitoring POS trends in this channel and currently expect that they can clear their inventory during the 2024 season to set up a stronger 2025.

Their global cost reduction program remains on track to result in savings of $1.5 billion by the end of 2024 and $2 billion by the end of 2025.

They have captured $1.2 billion in savings to date and remain confident it will support 30% gross margins in 2024, consistent with our guidance.

Approximately 80% of the company's revenue is expected to carry 2024 adjusted gross margins in excess of 30% and exit this year at or ahead of initial expectations.

Their long-term success will be driven by improved profitability, and consistent market share gains. They believe their share of the tools market is now stable to increasing.

Their 2023 point-of-sale data in tools performed better than the category average across the North American home centers, led by DEWALT. They are also improving their fill rates.

Ace Hardware named CRAFTSMAN as Vendor of the Year for 2023 and Grainger recognized Stanley Black & Decker with their Partners and Performance Award.

They completed the sale of Stanley Infrastructure to Epiroc and used the net proceeds to reduce short-term debt.

For 2024 they expect mixed demand trends to persist across their businesses. They are driving supply chain cost improvements and funding investments designed to fuel targeted long-term growth and market share gains across their businesses. They remain focused on generating free cash flow and growing margins.

It's DeWalt's 100-year anniversary and they highlighted several new DeWalt product introductions.

Supply chain transformation initiatives are expected to generate approximately $0.5 billion of savings in 2024. Strategic sourcing remains the largest contributor to savings. They are leveraging savings on the $5 billion of addressable spend across areas such as materials and components, finished goods and indirect expenditures.

Lean manufacturing is driving productivity improvements and improving efficiency and effectiveness in their production and distribution facilities.

There are lots of initiatives in the pipeline that will deliver efficiency gains in 2024 and beyond.

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They are optimizing their distribution footprint and redesigning their manufacturing network to leverage centers of excellence and to optimize operations. This is a multiyear program. They plan to exit or transform a number of facilities across the globe during 2024 and 2025.

The manufacturing sites they previously announced for closure have ceased production and they expect to exit these sites completely in the near future.

They have reduced their reliance on Chinese manufacturing. Back in 2016 when stiff tariffs that are still in place were first introduced, their products sold in the US but made in China accounted for about 40% of US revenue. Today, they account for somewhere between 20% and 25%.

TTI/Techtronics Industries

Steve Richman is the newly named CEO of TTI. Richman, who led subsidiary Milwaukee Tool for the past 17 years, was promoted to senior group president of TTI in January. No replacement for him as the head of Milwaukee Tool has been named yet. Richman replaced outgoing CEO Joe Galli immediately after Galli announced it was “time to retire” and stated that he believes he is leaving TTI in great hands.

Milwaukee Tool will be led by an team of five execs who served on Steve Richman’s leadership team. A spokesperson for Milwaukee Tool said the leadership team has been in place for 16 years and this approach will allow for a seamless transition. They will report directly to Richman. No word yet on where Richman, whose office was at Milwaukee headquarters in Brookfield, will be located. The team includes Shane Moll, group president of power tools, equipment, outdoor power equipment, digital product, platform and product service. Moll will also lead finance, information technology, legal and regulatory functions. Scott Griswold is group president of power tool accessories and outdoor power accessories.

RETAIL

Retail Sales Steady

Retail sales were steady in April, well below expectations for a 0.4% increase, and sales for March were revised down to an increase of 0.6% from the 0.7% first reported, according to the Commerce Department. Core retail sales, which exclude automobiles, gasoline, building materials and food services, fell 0.3% in April after rising a downwardly revised 1.0% in March and were up 3.6% year over year. It was the lowest percentage increase since spring 2022. Building materials sales rose 0.5% after falling 2.1% in March but were down 3.8% year over year. Online sales fell 1.2% after rising 2.7% in March. 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. Retail sales were also dragged down by a 1.2% drop in online business, reflecting a new sales event at Amazon and the earlier timing of Easter this year.

The Home Depot

Q1 revenue fell 2.3% to $36.42 billion and comp store sales fell 2.8% from Q1 2023. Comp sales fell 3.2% in US stores. Comps in Canada were slightly below average.

Q1 Conference Call with Analysts:

For the full year, they confirmed previous guidance and expect total sales to grow 1% and comp sales to fall about 1%. Total sales growth will benefit from a 53rd week; they expect the 53rd week to contribute approximately $2.3 billion in sales.

They opened two new stores during Q1, bringing total store count to 2,337. Retail selling square footage was approximately 242 million square feet. At the end of the quarter, merchandise inventories were $22.4 billion, down approximately $3 billion or 12% compared to the first quarter of 2023, and inventory turns were 4.5x, up from 3.9x last year.

Building materials and power departments posted positive comps, while outdoor garden, paint, lumber, plumbing and hardware were all above the company average.

Comp transactions fell 1.5% and comp average ticket decreased 1.3%. However, they continue to see customers trading up for new and innovative products.

Big ticket comp transactions (those over $1,000), were down 6.5% compared to Q1 2023. They continue to see softer

BOSCH Invented for life

engagement in larger discretionary projects where customers typically use financing to fund the projects such as kitchen and bath remodels.

Housing turnover is at historically low levels and that is clearly depressing project sales. Big projects that are typically financed are also suffering.

Sales leveraging digital platforms increased 3.3%. They rolled out an intent-based search engine that combines keywords, behaviors and intent to deliver more targeted results. They also enhanced their filtering capabilities to make it easier for customers to find exactly what they are looking for.

Pro and DIY customers performance was relatively in line with one another, but both were negative for the quarter.

Computer Vision helps them ensure that the products on the shelf meet their quality standards. They are also using Computer Vision in self-checkout to help mitigate shrink. Computer Vision can identify complex carts or high-value carts and signal the cashier to help the customer with their basket to ensure all products are scanned and accounted for. Shrink pressures profitability.

More than 70% of returns for online orders can now be handled by customers who can create their own return and drop it off at UPS with a scan of a barcode.

Later this year they plan to enable job site pickup or returns which will be a game changer for residential Pros, who will be able to initiate returns from the job site rather than have to return big/bulky items to the store.

They addressed their programs to capture more Pro share during questions and answers. They described their work to improve wholesale distribution capabilities as challenging, which is why they believe no one has done it before. They like what they see and will continue to roll out to additional markets. It's not about opening a distribution center (DC), they consider that the simplest part of the process. It's building an entire ecosystem and introducing customers to the capabilities.

They made some merchandising department changes to more closely reflect customers' shopper categories and areas of focus. They have added two more departments and now have 16 and have also separated electrical and lighting and kitchen and bath.

They renamed their tools department to the power department and included outdoor power equipment to capture synergies and maximize the strength of their battery-powered platforms.

The trend away from gas to battery-powered products is continuing, and they are well positioned. They believe they have the brands their customers are looking for, including Ryobi, Milwaukee, DeWalt, Makita and Ridgid. They estimate that their assortment covers the vast majority of the nearly 500 million batteries in the market today.

More than 70% of those batteries are with brands that are exclusive to The Home Depot in the big box channel with hundreds of products across each of these platforms creates an outstanding loyalty program that keeps customers coming back.

Other News:

THD is partnering with Instacart to expand their options and offer same-day delivery, sometimes in less than an hour, from 2,000 locations in the US. Customers can now order home improvement items, including home appliances, building supplies, light fixtures and garden essentials, for home delivery. The service also includes Instacart's Big & Bulky solution that enables retailers to offer same-day and scheduled delivery for large items up to 60 pounds.

Home Depot partnered with the Walmart White-Label GoLocal delivery service in late 2021. Home Depot offers same-day and next-day delivery of items that easily fit in a car such as fasteners, paint and small tools via GoLocal in multiple markets across the country. Products that qualify have a Walmart GoLocal option offered during online checkout.

Instacart partners with more than 1,500 national, regional, and local retailers to facilitate online shopping, delivery and pickup services from more than 85,000 stores across North America. Lowe's has been partnering with Instacart since 2022.

Lowe’s

Q1 sales fell to $21.364 billion from $22.347 billion in Q1 2023. Comp sales fell 4.1%; analysts had expected them to fall 5.5%. Lowe’s confirmed full-year 2023 guidance of sales between $84 and $85 billion and a decline of 2% to 3% in comp sales. A decline in big-ticket items was partially offset by an increase in online and Pro sales.

Q1 Conference Call with Analysts

Comp transactions declined 3.1% as homeowners continue to delay larger discretionary projects. **Comp average ticket was down 1%,** with strength in Pro partly offsetting the impacts of lower DIY big-ticket sales and ongoing appliance pricing pressure.

Large tickets greater than $500 were down 7.6% for the quarter. Most of that is still related to DIY, continuing the Q4 trend that saw big-ticket sales fall 8.8%.

They are trying to meet the customer where the customer currently is at. Even when the customer is looking for value, value does not always equate to low price, it equates to a great return for the dollar you spend.

They focused on spring promotions because they believe that if they win the customer early, they will get multiple shopping occasions throughout the spring and the year. This year their SpringFest strategy went more local than ever as they used weather-triggered digital marketing as the spring season broke across different regions.

They also introduced sneak peaks for SpringFest, featuring door busters focused on driving traffic into stores and online by using targeted offers in seasonally relevant categories such as soils, mulch, and live goods.

Overall, the Western region outperformed the rest. The slowdown started first in the West and they may also be coming out of it first.

Western rural stores continue to be their best performing subset; some initiatives begun with pet and apparel continue to perform very well in those locations. They continue to evaluate the expansion of those categories in their rural environments.

Pro comps were positive in Q1, which Lowe’s credited to strategic investments to improve the Pro experience driving increased sales and improved customer engagement.

They improved service levels and expanded their brand portfolio, which now includes Klein Tools, which strengthens their relationships with their core Pro customer.

Pro customers are proving to be resilient. Their recent Pro survey showed healthy backlogs in line with last year.

Their Pro strategy continues to focus on taking share with the small to medium-sized pros such as repair and remodel contractors, property managers and trace people, which represent half of the highly fragmented $500 billion Pro market. They are investing in service in order to continue to boost their credibility with this segment.

They continue to invest in Pro growth, which includes expanding their capabilities to handle the delivery of larger orders to the job site and opening new Lowe's Pro supply branches around the country.

They have “a significant runway” ahead of them to grow sales with these customers while also leveraging their retail footprint to drive profitability.

Online sales were up approximately 1%. Ongoing improvement in conversion rates in Q1 offset continued pressure in bigger ticket DIY categories.

During Q1 they expanded their same-day delivery options by partnering with DoorDash and Shipt. They are the first home improvement retailer to offer these options.

They are tailoring the online experience to support the unique needs of each customer and focus on project-based shopping. They are using virtual and mixed-reality to make it easier for customers to explore and visualize possibilities.

This quarter they rolled out their DIY loyalty program, MyLowes Rewards. Customers earn points towards earning MyLowes cash and get free standard shipping and other benefits. Launch and adoption have been very successful. They provided their first perk for Rewards members for Mother’s Day, and it was very successful.

They signed soccer super star Lionel Messi to the Lowe's Home Team to expand their reach beyond their role as the official home improvement retailer of the NFL. They are hoping to reach the 34 million soccer fans in the US who are not NFL fans and are excited by the rapid growth of soccer fans in the U.S.

As far as macro goes, while real wage growth and home appreciation are real, customers are still showing a preference to spend money on experiences and services.

They've made real progress in expanding their private brand penetration. The core focus of their private brand strategy is to offer brand-agnostic DIY customers style and quality at a great value. Their private label products, including Kobalt tools, do this and also provide significantly higher margins compared to national brands.

Customer satisfaction scores were up 100 basis points over last year as they continue to improve their shopping experience for homeowners and pros while driving productivity.

They are investing in associate training and retention and are seeing strong spring staffing levels and higher retention as they continue to invest in wages, associate development and internal mobility.

More than 80% of their store leadership positions were filled internally last year and nearly 90% of store leaders started in hourly roles.

Modernizing store operating systems enables associates to close omnichannel sales from within the stores and help customers get everything they came for.

They are only one-third of the way through their multiyear transformation of the front end of their stores, which includes proprietary self-checkout registers, pick-up in store experience that significantly improves their bottom line, a streamlined returns process and an optimized front-end selling space.

They have significantly reduced their return and cancellation rate through improved vendor partnerships, decreased damages and a clear and a consistent returns process that's now systematically applied through enhanced technology.

They are enhancing their shrink prevention ecosystem to maintain their best-in-class shrink performance including a new AI technology in partnership with NVIDIA that prompts customers to scan missed items during self-checkout. They're also piloting new product protection with a product security door that unlocks with the customer's phone number so there is no need for the customer to find an associate with a traditional key.

They worked with the Department of Defense to bring jobs directly to transitioning service members and military spouses and have a program to provide training and work experience with Lowe's during their last months of service.

Walmart

Walmart Q1 sales rose 6.0% to $161.5 billion, with gains driven by online sales and upper-income households attracted by their lower prices.

WM online sales grew 22%, following 17% growth during the strong holiday season. Growing use of their pick-up and delivery services and increased sales on their third-party marketplace pushed up sales.

Net profits soared to $5.3 billion, compared to $1.9 billion for Q1 2023.

Walmart+ has turned out to be very appealing to households earning more than $100,000 per year, who have become a driving force for their online operations. During the pandemic, Walmart invested heavily in online operations by expanding their range of sellers and products and introducing their Walmart+ subscription service that offers fast delivery and scan & go technology in stores for a $98 annual subscription fee. Walmart says they are focused on saving their customers both money and time, and they are both important.

Walmart announced plans to cut hundreds of jobs at headquarters and relocate most of their US and Canadian remote workforce to three offices. Walmart employs 2.1 million people.

Ace Hardware

Q1 revenues rose 2.5% to $2.1 billion. Sales growth was fueled primarily by 78 new domestic Ace stores, acquisitions by their Ace Home Services business, a 0.4% increase in comp store sales, and a 9% increase in their digital business, which included a 47% increase in sales though the Ace App.

The approximately 3,700 Ace retailers who share daily retail sales data reported a 0.4% increase in US retail comp sales, due to a 1.1% increase in average ticket, which was partially offset by a 0.7% drop in comp store transactions.

Ace introduced Vintage Threads, a collection of high-quality shirts and hats that feature historic logos from Ace Hardware's history, some dating back to the company's founding in 1924. The new product line is part of the 100-year anniversary celebrations taking place this year. Ace partnered with another company with a rich history, Chicago's American Needle, to create the collection of shirts, baseball caps and knit hats, available online and in participating stores.

Ace Hardware is giving away 1 million American flags nationwide on May 25. Ace is collaborating with the Veterans of Foreign Wars (VFW) once again this year to honor and remember the brave men and women who made the ultimate sacrifice for our country that inspired Memorial Day. Consumers who visit a participating Ace store on May 25 will receive a free 8" x 12" American flag. A second flag will be donated to a local VFW Post to be used for marking and honoring veterans' graves this Memorial Day. Last year, more than 500,000 American flags were given away to customers at Ace stores nationwide. In addition, Ace sent 562,000 flags to more than 1,700 VFW Posts for placement on veterans' graves.

Amazon

Amazon reported record Q1 results with revenue rising 13% to $143.3 billion and profits jumping to $10.4 billion. Both exceeded expectations. Sales in Amazon Web Services (AWS) increased more than 17% to about $25 billion with operating profits of nearly 84%. CEO Andy Jassy has noted several times that AI will be a big focus going forward and the next "big thing." Amazon's ad revenues grew 24% to $11.8 billion, representing 8% of its total revenue.

Amazon Web Services CEO announced he's stepping down from the cloud computing business he spent 15 years working into a profitable and strong market leader. Adam Selipsky, who became CEO of the Amazon subsidiary in 2021, is leaving to "spend more time with family for a while, recharge a bit, and create some mental free space to reflect and consider the possibilities," according to Amazon's press release. Selipsky did such a good job of creating a leadership team he will officially be replaced on June 3 by Matt Garman, who began with AWS as a summer intern in 2005.

Amazon began a pilot program that uses Amazon drivers to pick up returns from customers' houses and bring them to Amazon facilities for processing, according to insiders familiar with the test. Amazon is testing the idea at several warehouses in Texas and Florida and will rely on full-time drivers in Amazon-branded vans as well as Amazon Flex gig workers who use their own vehicles.

Amazon's Alexa voice assistant is getting an AI overhaul and Amazon will charge a monthly subscription fee when Alexa 2.0 debuts, according to CNBC. The offering will not be included in Amazon Prime subscriptions, according to a source. The new, more conversational version of Alexa, which will be launched later this year, would potentially position Amazon to better compete with new generative AI-powered chatbots from companies including Google (GOOGL) and OpenAI, according to two sources familiar with the matter.

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CANADA SNAPSHOT

Unemployment Rises to 6.2%

- The unemployment rate rose to 6.2% in May after holding steady at 6.1% for the previous two months. Unemployment was up 0.9% year over year.
- Unemployment reached a record low of 4.9% in June and July 2022. In January 2021 unemployment peaked at 9.4%.
- The economy added 27,000 new jobs in May. Construction lost 30,000 jobs and construction employment was down 1.9% year over year.
- Average hourly wages rose 5.1% (+$1.69 to $34.94) year over year in May after rising 4.7% in April (not seasonally adjusted).
- Wage growth must slow to bring down inflation. The BoC will not start lowering rates until inflation cools off.

Consumer Prices Rise 2.7%

Consumer prices rose 2.7% year over year in April after rising 2.9% in March, in line with expectations, according to Statistics Canada. Inflation has now fallen for the past four consecutive months. Core inflation rose 2.7% in April after rising 3.1% in March. The slowing increases heightened hopes that Bank of Canada (BoC) may cut interest rates in June. Prices for services continued to rise, climbing 5.0% in April after rising 4.5% in March. The biggest driver of increases in prices continues to be housing costs, including mortgages and rents. The BoC continues to forecast that inflation will drop to 2.5% in the second half of the year and return to their target of 2.0% next year.

Housing and Construction News

Housing starts fell 1% in April to 240,229 adjusted annual units after falling 7% in March, according to Canada Mortgage and Housing Corp. (CMHC). Monthly numbers can be skewed by big swings in multi-unit starts. To smooth out those swings and give a clearer picture of the upcoming housing supply trend, CMHC also reported that the six-month moving average fell 2%.

Canadian home sales fell 1.7% in April after rising 0.5% in March and were up 10.1% year over year, according to the Canadian Real Estate Association (CREA), which noted that the big year-over-year jump was most likely due to the early and long Easter holiday weekend. Average price year over year fell 1.8% to $703,846. New listings were up 2.8% from March.

Affordability and rising rates are the biggest factors impacting Canadian mortgage consumers, according to CMHC's 2024 survey of 4,000 recent mortgage consumers who renewed or refinanced a mortgage or purchased a home in the past 18 months. Historically high rates caused 22% to buy a home sooner than they'd planned, while 13% delayed a planned purchase. First-time buyers and newcomers were most likely to postpone.

Funding home improvements and renovations was cited as the top reason for refinancing an existing mortgage by 33% of respondents, out-pacing debt consolidation at 23%. About 12% of refinancers added a suite to their home. Improving home energy efficiency was the third most popular reason for renovating, accounting for more than half of overall renovation costs. Of those homeowners who renovated to improve energy efficiency, 93% were satisfied with the results and 68% saw savings in their energy.

A majority of mortgage consumers (79%) still believe a home is a good long-term financial investment. However, 63% of homebuyers continue to have concerns or uncertainty during the home buying process. Almost two-thirds (65%) of homeowners expected the value of their home to increase in the next 12 months, up from 55% in 2023.

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GDP Rises 0.4% in Q1

Real GDP increased 0.4% in the first quarter and GDP for the fourth quarter of 2023 was revised down to flat from the 0.2% growth first reported. Household spending increased by 0.7% in the first quarter, primarily due to a 1.1% rise in spending on services, while slower inventory accumulation depressed growth. Spending on goods edged up 0.3%, primarily due to increased sales of motor vehicles. New housing construction was relatively flat. The household savings rate reached 7.0% in the first quarter, the highest rate since the first quarter of 2022.

Interest Rate Cut in Future?

The Bank of Canada (BoC) is getting closer to cutting rates, according to the central bank's governor, Tiff Macklem. They cited downward momentum in inflation and a stabilizing wage market. The BoC also expects a strong pick-up in housing over the course of the year and some uptick in housing prices. The BoC held interest rates steady at 5% for the sixth consecutive time at their meeting in early April. Their next meeting is in June. The BoC started raising rates in 2022, which forced many potential homebuyers to the sidelines and caused prices to fall.

Retail Sales Fall 0.2% in March

Retail sales dropped 0.2% in March to $66.4 billion after falling to $66.7 billion in February. Retail sales have now declined for three consecutive months. Sales were down in seven of nine subsectors, led by decreases at furniture, home furnishings, electronics and appliances retailers. Core retail sales, which exclude gasoline stations and fuel vendors and motor vehicle and parts dealers, were down 0.6% in March, the first decline in core sales in four months. In volume terms, retail sales decreased 0.4% in March. Retail sales were down 0.2% in the first quarter, while in volume terms, retail sales increased 0.3%.

Retail Ecommerce Sales Rise 1.9%

Retail ecommerce sales rose 3.0% to $4.0 billion in March, accounting for 6.0% of total retail trade, compared with 5.8% in February.

Retail Notes

Canadian Tire Q1 retail comp sales fell 0.6%; consolidated comp sales fell 1.6%. Consumer spending softened, but store traffic was only slightly lower than Q1 2023. Revenue dropped 4.9% to $3.53 billion compared to $3.7 billion for Q1 2023; revenue was down 5.2% excluding Petroleum. Retail gross margins and profits rose.

MARKET TRENDS

Bad Weather in Asia, Freight Delays in Baltimore

Shipments have been held up departing Asia as well as arriving in the US. Severe weather and the resulting congestion in ports is causing delays of up to a week at key gateways throughout ports in Asia, threatening to delay outbound seasonal merchandise. Meanwhile, more than two months after the tragic event that brought down the Francis Scott Key bridge, claimed the lives of 6 bridge workers and brought traffic in the Port of Baltimore to a halt, the barge Dali, the size of three football fields, was finally towed safely into port. The crew remains on board while FBI investigations continue into the event. The port authority hopes to have the port itself back to normal operations in June. Meanwhile, the summer weather season in the US is off to a tumultuous start, with a record number of powerful tornadoes throughout the Midwest and the coming hurricane season in the Gulf forecast to be one of the worst on record.

Walmart Scales Up, Target Scales Down

What's responsible for Walmart's solid financials and market growth? Continued traction with upper-income shoppers is one of the factors behind Walmart's impressive 6% year-over-year improvement in sales and healthy increase in profits. CEO Doug McMillon says Walmart is not trying to chase sales from the $100,000+ a year crowd. However, they've made considerable investments in areas that are likely to help them retain wealthier shoppers weary of rising prices and stubborn inflation who came in looking for every day low prices and good selection and liked what they found.

Walmart is plowing cash into renovating their stores and is

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on track to overhaul 900 locations this year as well as build new stores. Their "store of the future" design features brighter lighting, better signage, and a space that is generally more inviting to those who want to wander the aisles as well as to busy shoppers trying find something in a hurry.

Walmart is also expanding their product selection in stores, and recently launched a premium private label brand, Bettergoods. The number of third-party sellers on their marketplace grew by more than a third in the US, and product listings now top 420 million items. That makes ecommerce more convenient for customers. Delivery sales and curbside order pickup continue to grow.

McMillon says customers are looking for two things: low prices and shopping convenience. Walmart has always been known as the low-price leader but is now developing a real reputation for being a convenient place to shop as well. McMillon reiterated they are being very mindful not to alienate their cost-conscious customers and are committed to making sure they continue to offer them lower-priced options. The number of grocery rollbacks, which amount to temporary sales, were up 45% in April.

Walmart looks and feels more like Target, according to retail experts. Analysts say the nicer stores, upscale merchandise, and ultra-convenient pick-up and delivery are a winning combination.

Meanwhile, Target is slashing prices on 5,000 items, mainly grocery, household goods and beauty/personal care items in order to boost lagging sales and lure back customers. The big price reductions were heavily promoted through a multi-media campaign.

Credit Card Delinquencies Climb

The share of credit-card and auto loans going into serious delinquency continued to rise across all age groups in the first quarter of 2024, according to the New York Fed. An increasing number of borrowers missed credit card payments, which is an indication of what the Fed refers to as “financial distress,” or as people put it, postponing Peter to pay Paul. It is the highest level of serious delinquency (90 days or more past due) since 2012. Delinquencies fell to historic lows during the pandemic as consumers spent less and were able to accumulate savings and pay down debt with funds saved and economic stimulus payments. But now nearly one-fifth of Americans have maxed-out their credit.

Consumer Spending’s Silver Lining

Older Americans are increasingly fueling consumer spending, benefitting from big gains in the stock and housing markets. Much of their spending is going toward higher-priced services like travel, health care and entertainment, which puts further upward pressure on those prices and contributes to inflation.

This type of spending is relatively immune to interest rates because these consumers rarely borrow. Affluent older Americans who invest in government bonds may even be benefitting from sustained higher interest rates as bond yields have increased, generating more income for bond holders.

The “wealth effect” of rising home and stock values gives people confidence to increase their spending. Economists believe that’s one big reason why the economy has defied expectations of a sharp slowdown. The resilience and strength of the economy is contributing to inflation sticking around longer than anticipated and has thrown a monkey wrench into the Fed’s plans to lower rates.

By the Numbers:

Since 2018 household wealth has grown nearly 9% a year. Household wealth grew by an average of 5.5% a year in the decade after the 2008-2009 Great Recession.

Stock prices are about 72% higher than they were five years ago, as measured by the S&P 500 index, the index most closely tracked by professionals.

Home values have gone up a staggering 58% from the end of 2018 through 2023, according to the Federal Reserve.

Americans’ wealth has ballooned to $147 trillion at the end of 2023 from $98 trillion at the end of 2018. Adjusting for inflation, the gains are less dramatic, but still well above average.

Wealth for the median household rose 37% to $193,000 from 2019 to 2022, the sharpest rise on record since the 1980s according to the Fed.

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Wealth is also disproportionately held by older Americans. Americans ages 65 and over make up about 17% of the population, up from 13% in 2010. People ages 55 and over now own nearly three-quarters of all household wealth, up from 68% in 2010, according to the Fed. And the wealthiest one-tenth of Americans own two-thirds of all household wealth.

Meanwhile, younger Americans are struggling. While the job market is good, they are dealing with a combination of expensive home prices, high mortgage and interest rates and increasing costs for childcare, making it much harder to buy a first home or a new car. In some cases, the parent with the lower-paying job is choosing to stay home and provide day care.

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