

# How retailers benefit from the tight housing market

## Article

**The news:** The tight housing market is driving people in the US to tackle home projects and embark on renovations.

- That helped drive top-line sales for **The Home Depot** and **Lowe's**. **The Home Depot's** sales grew **10.7%** year over year (YoY) in fiscal Q4, and **Lowe's** sales rose **5.1%**, per the companies' press releases.

**More on this:** Both companies beat analysts' expectations thanks to rising real estate values as many people in the US—including millennials, the country's largest generation—bought houses and upgraded to larger ones during the pandemic, per CNBC. With a dearth of available houses, many have hired contractors to renovate rooms, replace aging appliances, and handle other projects.

- Despite the positive trendlines, The Home Depot's gross margin was **33.2%**, a 36 basis-point drop from a year earlier, per our calculations. This was due to a shift in the products consumers bought and the retailer's ongoing push to build out its logistics infrastructure to facilitate next-day delivery.
- The Home Depot's average ticket was up **12.4%** during the quarter, with about two-thirds of that growth stemming from inflation.
- Lowe's gross margin was 32.9%, a 115 basis-point increase from a year earlier.
- Lowe's expanded its portfolio of merchandise so shoppers have options if an item such as a dishwasher is out of stock.
- Inflation drove about half of Lowe's sales increase in the second half of the year, Lowe's CEO **Marvin Ellison** told CNBC.

**Why Lowe's is bullish:** Lowe's boosted its forecast for fiscal 2022 because it believes its efforts to navigate the supply chain should pay off.

- The retailer has worked closely with suppliers, sourced more products from the US, and imported inventory from other countries, Ellison said.
- Lowe's already has its inventory ready in the US as it gears up for spring, its busiest season.
- Lowe's efforts to attract more home professionals with a new loyalty program and perks such as reserved parking are paying off. Sales from home professionals grew **23%** during Q4. Lowe's has historically drawn 20% to 25% of its total sales from pros, compared with The Home Depot, which gets about 50% of its sales from them, according to CNBC.

**Why The Home Depot is bearish:** The Home Depot offered a conservative outlook, noting in its press release that it expects "slightly positive" sales growth and comparable sales growth.

- The retailer is having trouble keeping shelves stocked, said **Ted Decker**, the company's current COO (who will become CEO next month), during the earnings call. "When we receive the goods and get them on our shelves, they go," he said.

**Why it matters:** US consumers embarking on home projects bodes well for a range of retailers beyond The Home Depot and Lowe's.

- Merchants in categories such as furniture and home goods are in a prime position to benefit— if they can effectively navigate the supply chain by taking a tack like Lowe's and ensuring consumers have options if an individual item is out of stock.